CHIEF FINANCIAL OFFICERS ACT COMPLIANCE AND FINANCIAL MANAGEMENT IN THE DEPARTMENT OF COMMERCE

Y 4.G 74/7:F 49/7

Chief Financial Officers Act Compli...

HEARING

BEFORE THE

COMMERCE, CONSUMER, AND MONETARY AFFAIRS SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

JUNE 28, 1994

Printed for the use of the Committee on Government Operations

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CHIEF FINANCIAL OFFICERS ACT COMPLIANCE AND FINANCIAL MANAGEMENT IN THE DEPARTMENT OF COMMERCE

TUESDAY, JUNE 28, 1994

HOUSE OF REPRESENTATIVES,
COMMERCE, CONSUMER, AND
MONETARY AFFAIRS SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:34 a.m., in room 2203, Rayburn House Office Building, Hon. John M. Spratt, Jr. (chairman of the subcommittee), presiding.

Present: Representatives John M. Spratt, Jr., Gene Green, C. Christopher Cox, Christopher Shays, and Stephen Horn.

Also present: Thomas S. Kahn, chief counsel; Donald P. Tucker, chief economist; Faye Ballard, clerk; and Doug Riggs, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF CHAIRMAN SPRATT

Mr. SPRATT. Let me call the hearing to order.

Today, we will hold the first of two scheduled hearings on the implementation of the Chief Financial Officers Act of 1990. Today's hearing deals with the Department of Commerce. On July 13, we will take up the Treasury Department.

The Chief Financial Officers Act, the CFO Act, is a landmark piece of legislation, and the work being done at the executive agencies to implement modern financial management throughout the government is in our opinion absolutely critical work. This measure and its full implementation are especially important to this committee because we helped author the bill.

The CFO Act calls on agencies to develop integrated financial management information systems, something which most Federal agencies lack now in the best sense of the word. More specifically, each agency Chief Financial Officer is directed under this act to develop a single financial information system to assure that executive branch officials and the Congress have access to detailed cost information, systematic measurements of agency performance, integrated accounting and budgeting information—this is the statutory language—and financial records in a form that supports the decisionmaking needs of the agency's management.

These requirements will bring modern information technology and financial accountability, or at least they are intended to, to Federal agency management. In this way, they should enable, we

hope, financial managers in the Federal Government for the first time in many agencies to have the managerial tools that they need to achieve better results for the public.

Achieving these standards in financial management is critical to making the Federal Government more efficient and more responsive and, in fact, they are essential to the whole process of gaining control over the Federal budget in a micro sense.

This subcommittee selected the Commerce Department for oversight review of its progress in meeting the CFO Act requirements, because by Commerce's own account, its financial records and its accounting system are in very poor and inadequate condition.

Commerce Secretary Brown, at the end of last December, acknowledged in a letter to President Clinton that his Department's financial systems are, "seriously outdated and fragmented; unable to provide timely, complete, and reliable financial information; inadequately controlled; and costly and difficult to maintain."

When I saw that quote without the attribution, I thought it was at least from the General Accounting Office, if not from some hypercritical subcommittee of the Congress. But instead, that is a mea culpa by the Department of Commerce itself. It describes a seriously broken system.

Moreover, the Office of Management and Budget has identified the Commerce Department's financial management system as a high-risk area. So the problems at Commerce are there, and they are deep and they are significant.

The Department's inspector general has also emphasized repeatedly in his semiannual reports the deplorable state of the Department's financial records.

This represents the Department's starting point, then. I am encouraged by recent signs of major improvement, signs that we have moved beyond that dismal starting point toward some results, and I want to emphasize that we are not here today to look back and dwell on past inadequacies. We want to look forward and emphasize the status of plans that are now under way and what has being done truly to implement them to see that we can correct this bad situation.

I want to emphasize also that we are not holding up the Commerce Department as any kind of worst case example. There are serious financial problems throughout the Federal Government. The Commerce Department is not unique, but it happens to be under our jurisdiction, and because the Commerce Department stands for business, we think that is one of the places where good financial management should start and should be propagated throughout the government.

I am very pleased to welcome the Deputy Secretary of Commerce, Mr. David Barram, as our leadoff witness today. He has come recently to government service from Apple Computer where he served for a time as Apple's chief financial officer, later as vice president for Worldwide Corporate Affairs. His appearance today, I understand, is his first congressional testimony, however, and we are delighted that he has elected to make his debut for us.

We also take considerable encouragement from Secretary Brown's decision to ask Mr. Barram to represent the Department on this very important topic. I believe it reflects the very high pri-

ority that the Secretary has assigned to this matter of financial management reform and accountability.

We are pleased, also, to have the Department's Chief Financial Officer, Mr. Tom Bloom, with us today, of whom we have heard many good things, and the Department's Deputy CFO, Mr. Clyde McShan, who has a long and distinguished record as a career specialist in financial management with the Federal Government. Welcome to all of you.

Mr. Frank DeGeorge, the Department's IG, is also a key player in the implementation of the CFO Act. We are equally pleased to have him here today. Mr. DeGeorge has been IG at Commerce since 1988. That gives him some historical perspective the other witnesses lack and we think that will be useful to have today.

I want to express our thanks, too, to the General Accounting Office, and particularly to Greg Holloway, for their work in preparing for this hearing. The subcommittee presented GAO with a request for a full evaluation of Commerce's implementation of the CFO Act requirements just a few weeks ago, and GAO has worked extremely diligently to prepare within the time we gave them the information we needed.

And finally, I am grateful for the efforts of the Financial Executives Institute over the years to encourage the effective implementation of true financial reform in the Federal Government. We are pleased to recognize and welcome Mr. Tod Adams here today from FEI.

So with that introduction, let me turn to our ranking member, Mr. Chris Cox, and ask him for any statement he has. Then we will get under way with the hearing.

Mr. COX. Thank you very much, Mr. Chairman. Mr. Bloom, Mr. Barram, Mr. McShan, Mr. DeGeorge, thank you very much for joining us here this morning.

I want to thank the chairman, once again, for continuing to hold hearings on this vitally important issue. I have said many times that the oversight that this committee does of the CFO Act is perhaps our most important and salutary work.

The Federal Government, as we sit here, doesn't produce audited annual financial statements, even though the Federal Government spends $1.5 trillion a year. This is one of the biggest reasons that our government wastes so much money and that it is so deeply in debt. Federal spending is projected to grow from today's $1.5 trillion to $1.8 trillion over the next 3 years. And yet there are those who say that we just can't afford sound accounting practices.

It has now been 4 years since we passed the CFO Act. And yet even today, this effort to bring common sense and sound management practices to our financial reporting systems is under assault.

Three weeks ago, the House Appropriations Committee reported legislation that came to the floor, which would have prevented the implementation of the CFO Act at the Department of Transportation. It was members of this committee who led a successful battle to strike the offending language from the bill when it reached the House floor.

There are still others who resist or oppose implementation of the CFO Act. The Department of Commerce's own inspector general, with us here today, said this earlier this year.

Except for budgetary matters, senior managers at most bureaus have shown limited interest in financial management issues. This lack of commitment at the top over many years has resulted not only in the poor condition of existing financial records and systems, but more significantly in a general deemphasis of the role, importance, and organizational standing of the financial management function.

The Office of Management and Budget apparently concurs.

In February, OMB included the Department's financial management structure in their annual list of governmentwide high-risk areas—not exactly a ringing endorsement. Now, in all fairness to the Department of Commerce, it has moved forward with a plan for fiscal reform. It has bought PC's and software. But I remain concerned that this pilot program will be installed in only three Department bureaus, the National Institute of Standards and Technology, the Office of the Secretary, and the Census Bureau. Commerce officials state that full implementation of the CFO Act won't come until 1998. Now imagine if one of our constituents told the IRS that he or she couldn't figure out his income because of sloppy accounting practices. Does any one of us suppose that the Service would give us 4 years to get our act together? Of course not. We would be slapped with a hefty fine and interest on top of that.

I am very concerned over the inordinate amount of time it takes to compile basic financial information. The data we will be reviewing today is taken from the fiscal year 1992 financial statement released by the Department of Commerce. As we sit here today, we are nearly three-quarters of the way through fiscal year 1994. But fiscal year 1993 data still aren't released. If Apple Computer or any other private corporation were so lax, they would either go bankrupt or face a revolt from shareholders. We shouldn't have to wait years and years to get honest financial statements from the Federal Government.

When I worked at the White House, I was amazed to learn that the President, who is the chief executive of the Federal organization, can't get a reliable consolidated financial statement for the government he supposedly runs. The CFO Act is designed to fix this problem and give the President the tools he needs to fix this badly broken financial process. That is why implementation of the act is so vitally important. The Department of Commerce owes it to the President and the American people to implement the act as swiftly and as reliably as possible, and I am looking forward to learning from our witnesses today how this will be accomplished. Thank you.

Mr. SPRATT. Thank you very much, Mr. Cox. And we will proceed with our hearing.

[The prepared statement of Mr. Green follows:]

Statement of Representative Gene Green
Government Operations Subcommittee on
Commerce, Consumer, and Monetary Affairs

Thank you, Mr. Chairman, for the opportunity to publicly discuss this issue. Central to the duty of the Government Operations Committee is the oversight of our federal and executive agencies. It is our job to see that the government provides services and manages its programs in the most efficient way possible. In the past, and to a large extent in the present, it has been difficult for the government to perform those duties efficiently.

Just yesterday, the House approved the Federal Acquisition Reform bill which originated in our committee. One driving force behind that bill was the realization that federal procurement regulations,

especially in the Defense Department, no longer reflected the reality of how business was conducted in the private sector. It no longer served the purpose of the government or the taxpayer to maintain a separate and complicated acquisition system.

In the same way, the Chief Financial Officers Act aims to bring the federal government up to speed in the area of financial record keeping and reporting. In the case of defense acquisition much of the red tape was a result of trying to prevent the last scandal from happening again and, over time, the contradictory regulations began to pile up. On the other hand, the CFO Act was necessary because not enough emphasis had been placed on effective financial management.

The task of the those implementing the CFO Act is to create accurate systems that more track where the money goes, why payments were made, and what the status of government programs are. I do not envy those at the Commerce Department who have been in the process of implementing those kinds of systems for the first time.

A few years ago in my state of Texas, John Sharp spearheaded a successful drive to make government more accountable and effective. I wish you all similar success and I look forward to hearing about your progress.

Mr. SPRATT. Mr. Barram, we have your testimony, which was prepared ahead of time and submitted. We will make it part of the record, if there is no objection, and you can summarize it or read it in its entirety, whichever you prefer.

We will recognize you first, then move to Mr. Bloom, Mr. McShan, Mr. DeGeorge. The floor is yours.

STATEMENT OF DAVID J. BARRAM, DEPUTY SECRETARY, U.S. DEPARTMENT OF COMMERCE

Mr. BARRAM. Thank you very much. Good morning, Mr. Chairman, Mr. Cox. I am very pleased to be with you today, because I share your deep interest in making this government work better and cost less. In fact, that is the slogan that the Vice President uses and the one we in the President's Management Council use all the time.

I came to this administration because I believed that President Clinton was serious about and committed to change, because I believed Secretary Brown had the capacity to transform the Commerce Department, because I believed there were enough Members of Congress who really wanted to see government work well, and because I thought I had some skill at management and some ideas and energy I could impart to the Department.

I would like to share with you three general observations about the Federal Government. These are my personal observations, but they are important to me because they drive me as I work with our team at Commerce and with my colleagues on the PMC.

First observation is that government is certainly different from the private sector. But the forces of change unfortunately do not respect that difference. I thought that changing the culture, being part of changing the culture, would be hard, and it is. But I didn't understand fully the way the interrelatedness of all the factors could tie good intentions into knots. I think that is especially sad, because thwarting change, whoever does it, is deadly in this day of rapid and constant change. When the world changes around us and we don't, we become increasingly ineffective.

My second general observation is that government usually focuses on the process rather than the outcome. It aims to prevent abuse at the cost of achieving excellence. A Senator recently said that we spend millions to save thousands, and it has become a common phrase. People fear being caught. Mistakes ought to be for learning. That is the way you learn. The main benefit of a mistake ought to make the organization do better next time and to spur the individual to grow.

The third observation is that I believe doing real work is the goal, not just being there. And if we had a real culture change, it would consist of some powerful elements such as the following: I think a culture whose mission is focused on customer satisfaction, a culture where each employee understands the mission and is free to make decisions to achieve it, a culture where managers add value rather than supervise, everyone in this culture, but especially managers, would look to be an obstacle remover, and a culture where everyone is held accountable for his or her work.

Why do I say all that? Because we at Commerce, and I think many agencies, are eager to do our job well, eager to reinvent our-

selves by understanding our customers and getting real work done. We would like to be just as good as the best private sector organizations.

We take the CFO Act seriously. We want to accomplish the results that it sets forth. We have as you have mentioned, a very unsatisfactory accounting and information system now, one that operates on outdated equipment and uses software developed in the 1960's, 1970's, and 1980's. Interesting decades, but not the decades that you want to get your software from. None of us is proud of it, and all of us want to go from the bottom to the top as quickly as we can.

We want to have a system that makes our people efficient, makes our numbers accurate, and makes our information immediate, to your point, Mr. Cox, and useful, and a system that we can adapt to the changes that will inevitably come.

When I arrived last July, it was easy to see that we had a problem, the problem that you both have mentioned. I decided I wasn't going to address it until we had a first-class CFO. Because I had been around long enough to know that if you have a big problem like that, you better have the right people and tools in place to fix it.

We now have a first-class CFO. We are tackling the problem with intelligence and resourcefulness, and we are dedicated to getting it done fast. We saw the CFO Act as an opportunity to speed up our systems development, to get in place a new systems which we call CAMS. Tom Bloom will tell you all you wish to know about CAMS and about the way his team has come together to make this project something we can all be proud of.

Before I turn it over to Tom, I want to say four more things. One is that you should hold us accountable in our quest to provide a state-of-the-art management system.

Second is that I would like for you to do everything you can do to help this team get there, whatever that may be. Because if you do and we accomplish it, that will be a great example of government working and working together.

And third, I believe there is a close relationship between the speed with which a team accomplishes a major project and its ultimate success with that project. As I said earlier, this world is moving too fast for us to dawdle, and a few learning mistakes in the service of a quickly implemented system is dramatically more valuable than the morale zapping old-fashioned style that we all used to use. I believe that the most important skill we all need is the ability to adapt to change. Planning is important, but nowhere near as important as that skill. Learning to adapt to change happens when you practice it.

And fourth, Tom Bloom is the kind of person you hope will become a CFO in a government agency, but seldom does. He is an excellent leader of people and projects and a highly skilled finance professional. I consider it my job to support Tom and his team and remove obstacles wherever I can and whenever I am asked.

At the table with Tom and me is Clyde McShan, our Deputy CFO and a high-performing career professional himself.

I am very proud to be a part of this team. We have a dream to be the best we can be, the best in our class. Without these dreams,

we won't reach. Without your support, we might be afraid to reach. We are willing to be held accountable. We have a good team and good leadership, and we have a good solid plan to get there.

I am pleased now to turn the floor over to our Chief Financial Officer and Assistant Secretary for Administration, Tom Bloom. If it is all right with you, we will be glad to answer questions after Tom is finished.

[The prepared statement of Mr. Barram follows:]

Testimony Before the Government Operations Subcommittee on Commerce, Consumer and Monetary Affairs

David J. Barram
Deputy Secretary of Commerce
June 28, 1994

Good morning Mr. Chairman, Mr. Cox and members of the Subcommittee. I am very pleased to be here with you today because I share your deep interest in making this government work better and cost less. In fact, that is the slogan the Vice President uses and the one we, in the President's Management Council (PMC), use all the time.

I came to the Administration because I believed Bill Clinton was serious about and committed to change, because I believed Ron Brown had the capacity to transform the Commerce Department into an agency that would be a leader in the most important areas of focus that would return America to a place of economic leadership in the world, because I believed there were enough members of Congress who really wanted to see government work well, and because I thought I had some skill at management and some ideas and energy I could impart to the Department.

I want to share with you 3 general observations about the federal government that might be a helpful perspective as we present our work at Commerce. These are my personal observations, but they drive me as I work with our team at Commerce – and with my colleagues on the PMC.

1. **Government is different from the private sector. But, the forces of change do not respect that difference.**
   - I expected that changing the culture would be hard. And, it is. But, I didn't understand the way the interrelatedness of all the factors could tie good intentions into knots. Procurement practices and regulations, personnel policies: all exist for a reason; but when combined, they create sluggishness or inaction.
   - And, there are good intentions everywhere. There is nothing sinister here, except maybe the way that partisanship on peripheral issues can overwhelm a discussion of good management practice.
   - That is especially sad, because thwarting change – whoever does it – is deadly in this day of rapid and constant change. When the world changes around us and we don't, we become increasingly ineffective. Even those who want less government don't win. Every level of government and society is hurt when we don't change.

2. **Government usually focuses on the process rather than the outcome. It aims to prevent abuse at the cost of achieving excellence.**
   - "Spending millions to save thousands."
   - People fear being caught – by the GAO, by the IG, by the Washington Post, by the other party. Mistakes ought to be for learning. Here, there is little feeling that the main benefit of a mistake is to make the organization do better next time and spur the individual to grow.
3. **Doing real work is the goal. Not, just being there. A real culture change would consist of some powerful elements, such as the following:**
   - The mission is focused on customer satisfaction.
   - Each employee understands the mission and is free to make decisions to achieve it. Likewise, each agency agrees on its mission with the President and the Congress and is free to achieve it.
   - Managers add value rather than "supervise." Everyone – but especially managers – looks to be an obstacle-remover.
   - Everyone is held accountable for his or her work (real output and accomplishment)

Why do I say all that? We, at Commerce (and I think many agencies), are eager to do our job well; eager to reinvent ourselves by understanding our customers and getting real work done. We'd like to be just as good as the best private sector organizations. This is not just true of the political appointees. I see this desire in a great many of the career employees I talk with.

We take the CFO Act seriously. We want to accomplish the results that it sets forth. We have a very unsatisfactory accounting and information system now – one that operates on outdated equipment and uses software developed in the 1960's, 70' and 80's. I don't have to tell you how far technology has traveled in that time. Far enough, believe me, to leave us behind.

None of us is proud of it and all of us want to go from the bottom to the top as quickly as we can. We want to have a system that makes our people efficient, makes our numbers accurate, and makes our information immediate and useful. And, a system that we can adapt to the changes that will inevitably come.

When I arrived last July, I saw that we had a problem. That was easy to see. Our IG, the GAO and the transition team had frequently pointed that out. I've been around long enough to know that you only fix tough problems with tough people who are also skilled. So, I decided I wasn't going to address it until we had a first class CFO. We now have one and we're tackling the problem with intelligence and resourcefulness. And we are dedicated to getting it done fast.

The CFO Act charges all departments to establish integrated financial management systems. We saw that as an opportunity and sped up our systems development work to get our new system, which we call CAMS (Commerce Administrative Management System.) Tom will tell you all you wish to know about CAMS and about the way his team has come together to make this project something we can all be proud of.

Before I turn it over to Tom, I want to say four things. One, is that you should hold us accountable in our quest to provide a state-of-the art management system. Second is that you should do everything you can to help this team get there – whatever that may be. Because, if you do and we accomplish it, that will be a great example of government working and working together.

And, third, I believe there is a close relationship between the speed with which a team accomplishes a major project and its ultimate success with the project. As I said earlier, the world is moving too fast for us to dawdle and a few "learning" mistakes in the service of a quickly implemented system is dramatically more valuable than the morale-sapping old-fashioned style that we all used to use. We are going to keep it updated, anyway. No system should take more than 2 years to install. Most modules can be used almost as quickly as good people can read the manual. I believe that the most important skill we all need is the ability to adapt to change. Planning is important, but nowhere near as important as that skill. Learning to adapt to change happens when you practice it.

And fourth, Tom Bloom is the kind of person you hope will become a CFO in a government agency, but seldom does. He is an excellent leader of people and projects and a highly skilled finance professional. I consider it my job to support Tom and his team and remove obstacles wherever I can and whenever I am asked.

We have a dream to become the best we can be – the best in our class. Without these dreams, we won't reach. Without your support, we might be afraid to reach. We are willing to be held accountable. We have a good team and good leadership. And, we have a good, solid plan to get there.

I am pleased now to turn the floor over to our Chief Financial Officer and Assistant Secretary for Administration, Tom Bloom.

Mr. SPRATT. I think it is the best way to proceed. Mr. Bloom.

STATEMENT OF THOMAS R. BLOOM, CHIEF FINANCIAL OFFICER AND ASSISTANT SECRETARY FOR ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE, ACCOMPANIED BY CLYDE McSHAN, DEPUTY CHIEF FINANCIAL OFFICER

Mr. BLOOM. Good morning, Mr. Chairman and Mr. Cox. Thank you for giving us this opportunity to discuss the status of Commerce's implementation of the CFO Act. It is a pleasure to appear before you and this subcommittee this morning. In the interest of time, I would like to have my full testimony introduced for the record. I will limit my statements to these highlights.

Mr. SPRATT. Without objection, your testimony and everyone's will be made part of the record, so you can summarize it, if you wish.

Mr. BLOOM. Thank you. Financial management improvement is a top priority at the Department of Commerce. As Secretary Brown pointed out in our first annual CFO report, today more than ever before we have an opportunity to make revolutionary changes in financial management. I sincerely believe that reinventing government and financial management reform go hand in hand.

To set the context for our work on the CFO Act, I would like to share a few facts about the Commerce Department. While far from the largest cabinet agency, it is a complex one. Our budget is approximately $4 billion, and we employ over 36,000 people in 14 bureaus with operations throughout the world. Some of our eight different accounting systems date to the 1960's. Their shortcomings have led managers to create well over 100 cuff accounting systems, persuasive evidence of how badly we need to modernize.

The executive team we have assembled to direct these efforts is a highly skilled one, with impressive credentials. As the act requires, we have a CFO and a deputy CFO in place. Between the two of us, Mr. McShan and I have nearly 50 years of financial management, operations, auditing, and consulting experience. In addition, Deputy Secretary Barram is a seasoned financial management professional, having served as the CFO of Apple Computer and Silicon Graphics, two of Silicon Valley's most successful companies. He preceded that with a 13-year finance career at Hewlett-Packard, the father of the high-tech industry.

The inspector general and I also have a strong working relationship that I value. We have been able to jointly tackle several issues, each bringing our own unique perspective and insights to the matter.

I would like to highlight for you a few of our accomplishments. We have, of course, prepared a detailed 5-year financial management plan and a comprehensive annual CFO report. We have prepared 17 financial statements covering 14 bureaus and over $3 billion of appropriated funds for 1993.

We are also taking an active approach to make immediate improvements. For example, we are establishing senior financial management positions at the bureau levels, strengthening internal controls, improving communications, and requiring continuing education for our financial managers.

As we have heard earlier today, the current systems and their convoluted processes are complicated and ineffective. They are costly, outdated, and worst of all they provide unreliable data. A central requirement of the CFO Act is to develop an integrated financial management system. We have developed an ambitious plan to do that. Our system, the Commerce Administrative Management System, or CAMS, as we call it, will use modern, commercial off-the-shelf software packages. This approach will fulfill our financial management vision, meet both governmentwide and Commerce-unique requirements, and provide the technology and capability to enable the Department to reengineer our existing processes.

The Federal Government is frequently criticized for dragging its feet in implementing technological advancements. We want to avoid this criticism in our implementation of CAMS.

The technology we plan to use, while modern, is not untested. It has been proven to work in the private sector, as well as State and local governments. In fact, relational data bases were first available some 15 years ago and became widely used in the mid-1980's. It really is only new to the Federal financial establishment.

CAMS is an innovative strategy that will result in a system that is straightforward, largely paperless, that strengthens our fund controls, and provides reliable up-to-date information. It will include standard software for accounting, budgeting, procurement, and other administrative functions.

Another benefit is that it will include a wide range of financial management software that will be centrally maintained at the Department but can be operated on various platforms located throughout the Department at the bureau level.

Phased implementation will begin in October 1995. Phase I will be implemented in three venues, the Office of the Secretary, the Bureau of the Census, and the National Institute of Standards and Technology, which make up from a budget standpoint over 30 percent of our appropriated funds.

It is not by accident that these three bureaus have been chosen for CAMS implementation in the first phase. To appropriately measure the capabilities and new technology, implementation must occur in a variety of environments. The Office of the Secretary, NIST, and Census meet these requirements.

For example, NIST, which sets the Federal information processing standards under the Computer Security Act, can be particularly helpful in developing systems for electronic approval.

The timing of implementation at Census is particularly opportune. CAMS can be implemented in the unique Census environment before the next decennial begins. That timing is important if we are to avoid going through the decennial with the same flawed system we had in 1990.

In addition, the leadership of both the Bureau and its parent organization, the Economics and Statistics Administration, are firmly behind us and want to proceed vigorously. They recognize that the Bureau's current system, initially designed in the late 1950's, is a punch card system and must be replaced.

We believe that we have an ambitious, yet achievable, plan to fully implement the new system. We have developed an implementation plan for each involved bureau which identifies critical suc-

cess factors. We have a good executive team, a solid plan, and a sound implementation strategy. The Deputy Secretary and I will ensure that this key Commerce initiative receives the resources it deserves to ensure its success. While we are planning for CAMS, we will not disassemble the current operational systems. Should our plans for CAMS change, we can modify our approach or cease implementation at any time without interrupting work flow.

In conclusion, I hope it is clear from my testimony how enthusiastically we have embraced the challenges set forth by the CFO Act. Thanks again for the opportunity to address the subcommittee, and I would be glad to answer any questions you might have.

Mr. SPRATT. Thank you, Mr. Bloom.

[The prepared statement of Mr. Bloom follows:]

TESTIMONY OF THOMAS R. BLOOM BEFORE THE HOUSE GOVERNMENT OPERATIONS COMMITTEE SUBCOMMITTEE ON COMMERCE, CONSUMER, AND MONETARY AFFAIRS

Good morning, Mr. Chairman, Mr. Cox, and members of the Subcommittee. Thank you for giving us the opportunity to discuss the status of Commerce's implementation of the Chief Financial Officers Act. It is a pleasure to appear before this Subcommittee.

Financial management improvement is a top priority at the Department of Commerce. As Secretary Brown pointed out in our first Annual CFO Report, "Today, more than ever before . . . we have an opportunity to make revolutionary changes in financial management. I sincerely believe that 'reinventing government' and financial management reform go hand-in-hand."

To set the context for our work on the CFO Act, I would like to share a few facts about the Commerce Department. While far from the largest Cabinet agency, it is a complex one. Our budget is approximately $4 billion, and we employ approximately 36,000 people in fourteen bureaus, with operations throughout the world. Some of our eight different accounting systems date to the 1960s. Their shortcomings have led managers to create well over 100 cuff accounting systems. Those cuff systems are persuasive evidence of how badly we need to modernize.

Our work in implementing the CFO Act in Commerce has laid the groundwork for revolutionary changes in financial management, changes that reflect the fundamental purposes of government reinvention. We view the Act as an opportunity to reexamine, simplify, and streamline our fundamental business processes. Although it sets an ambitious agenda, we are ready for the challenge and have already made considerable headway in fully implementing the Act.

The executive team we assembled to direct these efforts is a highly skilled one, with impressive credentials. As the Act requires, we have a CFO and Deputy CFO in place. Between the two of us, we have nearly fifty years of financial management operations, auditing and consulting experience. In addition, Deputy Secretary Barram is a seasoned financial management professional, having served as the Chief Financial Officer of Apple Computer and Silicon Graphics, two of Silicon Valley's most successful companies. He preceeded that with a 13 year finance career at Hewlett-Packard, the father of the high tech industry.

I would like to summarize for you our key accomplishments. We have, of course, prepared a detailed Five-Year Financial Management Plan and a comprehensive Annual CFO Report. We have prepared 17 financial statements covering 14 bureaus and $3.2 billion of appropriated funds for FY 1993. This is more than presently required by the CFO Act.

We recognize that the majority of these statements have not been subjected to audit review. We will work closely with the Inspector General, Commerce bureaus, and the Congress to see that the resources necessary to conduct these audits are made available.

Our philosophy is to take an active approach to make immediate improvements, rather than just concentrating on long range improvements. For example, we are establishing the necessary senior financial leadership positions at the bureau level to be sure each of them has a focal point for action. We are also working with bureau finance offices to quickly make internal control improvements to existing systems.

We have updated all Departmental financial management policies and procedures and made them available to managers electronically, thus reducing the sheer quantities of paper that burden them. By establishing a Departmentwide finance council, we have greatly improved communication and coordination. It has helped us successfully tackle some tough issues, such as cooperatively working out difficult funding problems.

Our new requirement for continuing education for financial managers will help bolster the professionalism we intend to instill. For instance, common professional development needs will be met through joint training programs.

I am excited about this new spirit of cooperation. Financial managers, accountants and auditors are groups

that often have conflicting professional goals, objectives and perspectives, but now we are successfully working together to provide accurate financial and performance information and to increase accountability. Everyone has moved beyond narrow interests to be sure we achieve Department goals.

Our close cooperation with the Office of the Inspector General has been a key factor in our progress. Their innovative approach to auditing financial statements has been invaluable. Their incremental approach has made it possible for bureaus to focus on correcting deficiencies, rather than channeling their resources into dealing prematurely with time-consuming audits. the Inspector General and I have a strong working relationship that I value. We have been able to jointly tackle several issues, each bringing our own unique perspective and insights to the matter.

Another provision of the CFO Act is to develop an integrated financial management system, and we have developed an ambitious plan to do so. This challenge is one we welcome because it is critical to our larger goal of revitalizing financial management. Our system – the Commerce Administrative Management System, or CAMS – began with a system operating concept and vision statement to meet our special needs, but reflecting the hard lessons learned by others.

Federal Departments and agencies purportedly have spent more than a billion dollars since 1980 on the development of "new financial systems." For the most

part, these development efforts failed to address the needs of program managers starved for complete, reliable and timely financial management information. These efforts employed outdated technology, while reinforcing outdated business rules and processes.

It is a fact that the Federal Government is frequently criticized for dragging its feet in implementing technological advancements. We want to avoid this criticism in our implementation of CAMS. After much discussion with other Departments that have implemented new financial systems during the past 10 years, we have decided that meeting customer needs through the use of modern technology must play a major role in our new financial system. We believe that key technical features -- such as a fully functional relational database management system and applications developed using Standard Query Language -- are essential.

The technology we plan to use is not untested; it has been proven to work in the private sector, as well as in state and local governments. In fact, relational databases were first available some 15 years ago and became widely used in the mid-1980s. It is only new to the Federal financial establishment. We sincerely believe that use of these technologies in our new financial system will result in less costly system maintenance and more effective operation.

Our strategy is to select modern, commercial off-the-shelf software packages for CAMS, ones that align with our financial management vision, meet both

governmentwide and Commerce-unique requirements, and provide the technology and capability to enable the Department to reengineer existing processes.

The current system and its convoluted processes are complicated and ineffective. The eight separate financial systems I mentioned earlier are not only costly, but they rely on outdated equipment and software and, worst of all, provide unreliable data. It is that failure to meet managers' needs that has forced them to develop the duplicative cuff-record systems I described before.

CAMS is an innovative strategy that will bring us closer to where we want to be: it epitomizes Government reinvention of administrative processes. The system will be clear, largely paperless, comprehensive, and effective. It will include standard software for accounting, budgeting, procurement, and other administrative functions.

Another benefit is that it will include a wide range of financial management software which will be centrally-maintained, but can be operated on various platforms located throughout the Department. Data will be captured at their point of origin and value will be added throughout the processing cycle. CAMS will use electronic approvals to help minimize paper flow. It will validate funds availability prior to commitment and will track the status of obligations. With its various functional modules, CAMS will provide timely, on-line

financial data to program managers throughout the Department, assure integrity, and reduce the need fo reconciliation or correction.

CAMS will be comprised of the following integrated modules:

- Core Financial System – All Joint Financial Management Improvement Program (JFMIP) Requirements will be met through this system.

- Payroll/Personnel – We currently obtain these services under a cross-servicing arrangement with USDA's National Finance Center which maintains an integrated Payroll/Personnel System. Data from that system will be linked to our core financial system.

- Procurement – We intend to establish a Departmentwide procurement system which will be user-friendly, flexible, and paperless.

- Travel – We plan to implement a Departmentwide travel system which will include

  travel authorizations, travel advance and voucher processing.

- Property Management – We plan to upgrade or replace our existing property management systems.

- Budget Formulation – This module will assist bureaus in the formulation of their budgets and required exhibits.

- Grants/Loans – CAMS also includes a Departmentwide Grants/Loans and Federal Assistance module. We anticipate automating all aspects of the financial assistance process.

- Bureau Specific Systems – CAMS will also include several bureau specific programmatic systems which have financial impact. An example of this is NOAA's maps and charts sales program.

Phased implementation of CAMS will begin in October of 1995. Phase I will be implemented in three venues: the Office of the Secretary, the Bureau of the Census and the National Institute of Standards and Technology (NIST).

It is not by accident that these three bureaus have been chosen for CAMS implementation in the first phase. To appropriately measure the capabilities of new technology, implementation must occur in a variety of environments, capturing the breadth of anticipated experiences. The Office of the Secretary, NIST, and Census meet these requirements.

For example, NIST – which sets Federal Information Processing Standards under the Computer Security Act

– can be particularly helpful in developing systems for electronic approval.

The timing of implementation at Census is particularly opportune. CAMS can be implemented in the unique Census environment before the next decennial begins. That timing is important if we are to avoid going through the decennial with the same flawed system as in 1990.

In addition, the leadership of both the Bureau and its parent organization, the Economics and Statistics Administration, are firmly behind us and want to proceed vigorously. They recognize that the Bureaus's current system, initially designed in the late 1950's as a punchcard system, must be replaced.

The recent Census reorganization is also an important factor. The creation of the Principal Associate Director and Chief Financial Officer position and the establishment of the Controller post at a level equivalent to that of Census Bureau Associate Directors will help bring the expertise we need to make this transition work.

We believe that we have an ambitious, yet achievable, plan to fully implement this new system in four years. We have developed an implementation plan for each involved bureau which identifies critical success factors. While we are planning for CAMS, we will not disassemble the operational systems. Should our plans

for CAMS change, we can modify our approach or cease implementation at any time, without interrupting work flow.

In conclusion, I hope it is clear from my testimony how enthusiastically we have embraced the challenges set forth by the CFO Act.

Thank you again for the opportunity to address the Subcommittee. I will be glad to answer any questions you may have.

Mr. SPRATT. Mr. McShan.
Mr. MCSHAN. Mr. Chairman, I really have no statement today.
Mr. SPRATT. All right. And Mr. DeGeorge.

STATEMENT OF FRANK DeGEORGE, INSPECTOR GENERAL, U.S. DEPARTMENT OF COMMERCE

Mr. DEGEORGE. My apologies, Mr. Chairman, I am getting over a bit of a cold.

I have with me today, although not at the table, Bill Pugh, Director of our Financial Statements Division, who is basically responsible for auditing the systems, and will be available for questions as needed, and Sally Obenski, who is a computer scientist in our Systems Evaluation Division We have a systems evaluation division which is basically responsible for evaluating large systems acquisitions, and that certainly is the CAMS system.

I will submit my statement for the record, Mr. Chairman, and I will read a considerable part of it but not all of it, given the pressure of time.

I appreciate the opportunity to discuss with you my assessment of the Department's progress in implementing the Chief Financial Officers Act of 1990. I would like to highlight significant accomplishments as well as the major impediments that continue to hinder the Department's realization of the act's goals and objectives.

Although financial management has become an increasingly high priority, it continues to be one of the most critical issues confronting the Department. Audits performed by the IG, as well as vulnerability assessments made by financial management, confirm the Department has serious problems with the reliability, efficiency, and internal controls of its financial practices and systems. As a result, Commerce's financial systems have been placed on OMB's governmentwide list of high-risk management areas.

Why are we in this condition? Essentially because of a severe long-standing lack of committed leadership and necessary resources to improve financial management at Commerce. Effective financial management begins with the tone set at the top of an organization. Except for budgetary matters, top managers at most of Commerce's bureaus generally have shown limited interest or involvement in financial management issues. This lack of commitment over many, many years has resulted not only in the poor condition of existing financial records and systems, but more significantly, in a general deemphasis of the role, importance, and organizational standing of the financial management function.

The Department's financial systems must provide accurate and complete information. Because of the poor condition of many of the Department's existing financial systems, they play a very limited role in decisionmaking today. Although a major project is under way to develop a new system, it is essential that financial managers take the necessary steps to produce accurate and reliable financial information from existing systems today. This is necessary not only to meet management's fundamental responsibility, reporting accurate financial information, but also to ensure that today's inaccurate, incomplete financial data will not be incorporated in tomorrow's modern system.

Although much remains to be done, the bureaus have begun to make progress. Most of the Department's financial information is located in the Washington metropolitan area. Therefore, we have assigned about one-half of the accountants and auditors in our headquarters audit staff to implement the requirements of the CFO Act. And our responsibilities basically are to audit the statements, as well as help with the planning and implementation.

These staff represent about one-third of our CFO audit effort. The remainder is being done through contracts. We believe using qualified in-house staff is more cost effective and provides more benefits to our bureaus. However, we cannot put any more of our staff into the CFO Act without severely shortcutting our other missions, investigations, inspections, performance audits, evaluations, some newly imposed requirements, and a direction to try to help in the National Performance Review as well.

In addition to overcoming the funding problem, we have also developed an innovative audit approach for implementing the CFO Act, which is strongly supported by the Department's Chief Financial Officer. Because the internal control deficiencies precluded meaningful audits of initial financial statements in most bureaus, we developed an incremental approach beginning with internal control surveys to identify problems hindering the production of accurate financial information. As a result, bureaus were able initially to concentrate on correcting deficiencies, rather than engaging in time-consuming audits which, in all likelihood, would have provided no assurance on the financial statements.

We are following internal control surveys with balance sheet audits of the fiscal 1993 statements and full scope audits of the fiscal 1994 statements, except for several of our larger bureaus where the schedule has been extended by 1 year.

The incremental audit approach is working well. The Patent and Trademark Office, one of our major bureaus, offers a good example. We expect the concerted efforts by PTO's financial management to correct accounting deficiencies identified in our internal control survey will enable us to provide audit assurance of their 1993 balance sheet.

Our approach has also fostered a cooperative problem-solving relationship among the IG, the Chief Financial Officer, and the bureaus. Further, it has been recognized as innovative and effective and has been supported by OMB and the GAO, both of which have provided valuable support and assistance along the way.

Our incremental approach will accomplish important short-term financial management objectives; however, financial system improvements are required to meet the Department's growing comprehensive financial needs, as evidenced by enormous budget request increases for financial assistance programs the last year or two.

To address this, the Department has embarked on a multiyear, multimillion dollar—$41 million estimated—initiative known as the Commerce Administrative Management System to modernize and integrate its accounting and financial systems and processes. The Department plans to be the first Federal agency to implement the "next generation," financial management and accounting system—a substantial undertaking and not without risk. The Depart-

ment is planning to select the core accounting piece of the CAMS in November of this year. This is, in essence, the critical first step in the implementation of CAMS.

In addition to the chronic problems I have just described, we have serious concerns about the current CAMS strategy to replace the Department's accounting system within 4 years. First, the Department's desire to premier the next generation Federal financial management and accounting system is, in my opinion, inherently risky.

A 1992 Department study looked at alternative system approaches and found that a next generation approach had risks, including cost growth and potential reliability and performance problems. Unlike established government accounting systems, these next generation systems have no real legacy of cost, schedule, and performance statistics and supporting documents, at least within the Federal Government. Further, as evidenced by GAO's and others' studies, government agencies have always experienced significant cost and schedule overruns in performance in their attempts to improve even conventional "tried and true" systems.

Second, the Department has departed from its earlier risk mitigation approach to have a "proof of concept" pilot at one bureau. Because of the risks and uncertainties inherent in going with the next generation system, the Department had planned to pilot the new accounting system at one bureau and then determine whether to deploy it departmentwide. Based on its experience at that one bureau, the Department could then work out system problems, develop a deployment strategy, and provide realistic cost and schedule profiles. This is no longer the plan.

Instead, the Department has decided to pilot the new system in three separate locations, NIST, Office of the Secretary, and Census, by October 1996. Regardless of bureau choice, which I will comment on momentarily, most people responsible for implementing the system express significant concern about the three-pilot approach. Under this approach, qualified staff already in short supply are diluted, costs are increased, complexity is tripled, and the Department, in my opinion, is essentially locked into this system, regardless of outcome. Unfortunately, the risk is further increased by the Department's schedule and choice of pilot bureaus, which is my real area of concern.

Before agreeing to be one of the three pilots, NIST top management listed conditions upon which it would participate. One of those conditions was that it would be allowed 2 years to fully implement the core accounting system. Keeping in mind that NIST is in relatively better financial management shape than the other two, I would point out the Department's schedule calls for Census and the Office of the Secretary to implement the core accounting system during the same timeframe. Because of the small size and accounting simplicity of the Office of the Secretary, its choice does not concern me nearly as much as that of Census.

The idea that Census will be anywhere near ready to begin hosting a new generation accounting system in the near future in my opinion is unrealistic. Census has a wide range of major financial management problems. There is no Chief Financial Officer, it has a shortage of qualified accounting and financial staff, and it

has poorly maintained and inadequate systems. Additionally, our recent audit survey indicated inaccurate financial reports, improper cost accounting, poor controls over ledgers, and other internal deficiencies. Finally, Census is just undertaking a major reorganization.

We recognize that Census is very concerned about having the new financial management system in place to support the decennial census. I understand the dilemma. However, I believe the CAMS and Census' needs for the decennial should be decoupled. My primary concern in the Census is viewing this new technology as a critical solution to its financial management shortfalls, rather than one of the many steps it needs to take to improve financial management. This view will probably lead to corrective actions being deferred, resulting in the same inaccurate and unrealistic data residing in a new and costly system. Given the risks, to ensure its readiness for the decennial, Census should plan now for alternatives to a fully implemented CAMS, including using existing systems or another agency's systems in the interim.

In conclusion, I want to make it quite clear that we support the goals of CAMS. However, I am very concerned about the strategy. The uncertainties and complexities surrounding CAMS, the Department's overall poor financial management condition, the three-pilot approach, and an ambitious deployment goal clearly add up to a risky situation. We are working closely with the Department to identify means to mitigate risks so the Department reaches the common goal of improved financial management.

I want to add a P.S., Mr. Chairman. I probably am as supportive of financial management change as is any IG in this government. I worked very closely with this committee and its full committee chairman, and minority members to help with the development of the CFO Act.

The problem in the Department today is that this is a very, very, very big project. Census is beginning the year 2000 decennial with pretests in 1995 and 1998. It will be a considerable digestion problem for Census to absorb the changes already planned for the way it is going to do the census in 2000.

In addition to all the factors we have discussed before, it is intended to change the basic methodology of doing the census. There will be considerable change in the way the census is statistically projected or at least the way it is now planned for the Census to statistically project its final calculated numbers.

A few years ago, there was a considerable discussion about the need for an adjustment for the 1990 census and a decision was made by Secretary Mosbacher not to make an adjustment at that time. The problems of combining this projected change in methodology along with its incomplete management status and Census' lack of financial leadership, including accounting systems, accountants, and a CFO, make a very difficult situation even more troublesome. I plan to work with the Department to find other alternatives to implement at Census in the same timeframe. I have serious doubts as to whether we can pull it all off.

Mr. SPRATT. Thank you very much, Mr. DeGeorge, for very candid testimony.

[The prepared statement of Mr. DeGeorge follows:]

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

STATEMENT BY

FRANK DEGEORGE
INSPECTOR GENERAL
U. S. DEPARTMENT OF COMMERCE

BEFORE THE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
SUBCOMMITTEE ON COMMERCE, CONSUMER, AND MONETARY AFFAIRS

JUNE 28, 1994

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to discuss with you my assessment of the Department's progress in implementing the Chief Financial Officer Act of 1990. I would like to highlight significant accomplishments as well as the major impediments that continue to hinder the Department's realization of the act's goals and objectives.

Although financial management has become an increasingly high priority, it continues to be one of the most critical issues confronting the Department. Audits performed by the OIG, as well as vulnerability assessments made by financial management, confirm that the Department has serious problems with the reliability, efficiency, and internal controls of its financial practices and systems. As a result, Commerce's financial systems have been placed on OMB's governmentwide list of high-risk management areas.

Why are we in this condition? Essentially because of a severe, long-standing lack of committed leadership and necessary resources to improve financial management at Commerce. Effective financial management begins with the tone set at the top of an organization. Except for budgetary matters, top managers at most of Commerce's bureaus generally have shown limited interest or involvement in financial management issues. This lack of commitment over many years has resulted not only in the poor condition of existing financial records and systems, but more significantly, in a general de-emphasis of the role, importance, and organizational standing of the financial management function.

This is well illustrated at two of our major bureaus, NIST and Census, where, until recently, the highest ranking financial officer was in a comptroller position subordinate to an administrative directorate. As a result of our audit work at these bureaus, we recommended that they both create chief financial officer positions and recruit proven financial executives to fill them. I am pleased that as a result of these

recommendations and the Department's own concerns, the position of Chief Financial Officer has been created at Census as part of its reorganization. However, until filled, these leadership voids will continue to impede attempts to improve financial management.

Financial management leadership must also be supported by qualified staff. Most of Commerce's bureaus have an acute shortage of knowledgeable managers and accountants to perform the functions required to ensure the accuracy and reliability of financial data. We continue to recommend that all bureaus assess the human resource and professional development requirements of their financial management staffs.

The Department's financial systems must provide accurate and complete information. Because of the poor condition of many of the Department's existing financial systems, they play a limited role in decision-making. Although a major project is underway to develop a new system, it is essential that financial managers take the necessary steps to produce accurate and reliable financial information from existing systems. This is necessary not only to meet management's fundamental responsibility of reporting accurate financial information, but also to ensure that today's inaccurate, incomplete financial data will not be incorporated in tomorrow's modern system. Although much remains to be done, the bureaus have begun to make progress.

Most bureaus have begun preparing annual financial statements as required by the CFO Act. However, I would once again like to point out that the Commerce OIG has not yet received any direct funding for conducting financial statement audits mandated by the act. Because of the Department's serious condition and my commitment to the act, we have worked very hard with the Department and the bureaus to reach agreements earmarking reimbursable funds to the OIG for conducting CFO Act audits. Likewise, because of their commitment and concern, financial managers agreed to provide $2 million in FY 1994, and the FY 1995 budget request anticipates reimbursable funds of about $3.6 million. Although I believe that a working partnership with the bureaus can be highly constructive and effective, dependence on reimbursable funds to accomplish the CFO Act audit work carries inherent risks as to the continuity of audit funding. Quite simply, I am very uncomfortable with accepting reimbursable funding from those whom I am charged with auditing. I would note that our House Appropriations subcommittee has included language in the FY 1995 report on appropriations stating that the Department's FY 1996 budget request should reflect a base transfer of reimbursable funds for CFO audit work from the respective bureaus to the Office of Inspector General.

Most of the Department's financial information is located in the Washington Metro Area; therefore, we have assigned about one-half

of the accountants in our headquarters audit staff to implement the requirements of the CFO Act. These staff represent about one-third of our CFO audit effort, the remainder is being done through contracts. We believe using qualified in-house staff is more cost-effective and provides more benefits to our bureaus. However, we cannot put any more of our staff into CFO Act work without severely shortchanging our other missions--investigations, inspections, performance audits, and evaluations.

In addition to overcoming the funding problem, we have also developed an innovative audit approach for implementing the CFO Act, which is strongly supported by the Department's Chief Financial Officer. Because internal control deficiencies precluded meaningful audits of initial financial statements at most bureaus, we developed an incremental approach beginning with internal control surveys to identify problems hindering the production of accurate financial information. As a result, bureaus were able initially to concentrate on correcting deficiencies rather than engaging in time-consuming audits which, in all likelihood, would have produced no assurance on the financial statements. We are following the internal control surveys with balance sheet audits of the FY 1993 statements and full scope audits of the FY 1994 statements---except for several of our larger bureaus, where the schedule has been extended by one year.

The incremental audit approach is working very well. The Patent and Trademark Office, one of our major bureaus, offers a good example. We expect that concerted efforts by PTO's financial management to correct accounting deficiencies identified in our internal control survey will enable us to provide audit assurance on their FY 1993 balance sheet. Our approach has also fostered a cooperative, problem-solving relationship among the IG, the Chief Financial Officer, and the bureaus. Further, it has been recognized as innovative and effective by OMB and GAO, both of which have provided valuable support and assistance.

Our incremental approach will accomplish important short-term financial management objectives; however, financial system improvements are required to meet the Department's growing comprehensive financial management needs (as evidenced by enormous budget request increases for financial assistance programs). To address this, the Department has embarked on a major multi-year, multimillion-dollar ($41 million estimated) initiative known as the Commerce Administrative Management System (CAMS) to modernize and integrate its accounting and financial systems and processes. The Department plans to be the first federal agency to implement the "next generation" financial management and accounting system--a substantial undertaking, and not without risks. The Department is planning to select the core accounting piece of CAMS in November of this year. This is, in essence, the critical first step in the implementation of CAMS.

In addition to the chronic problems I have just described, we have serious concerns about the current CAMS strategy to replace the Department's accounting systems within four years. First, the Department's desire to premiere the next generation federal financial management and accounting system is inherently risky. A 1992 departmental study looked at alternative system approaches and found that the next generation approach has risks, including cost growth and potential reliability and performance problems. Unlike established government accounting systems, these next generation systems have no real legacy of cost, schedule, and performance statistics and supporting documentation. Further, as evidenced by GAO's and others' studies, government agencies have experienced significant cost and schedule overruns and performance shortfalls in their attempts to implement even conventional, "tried and true" systems.

Second, the Department has departed from an earlier risk mitigation approach to have a "proof of concept" pilot at one bureau. Because of the risks and uncertainties inherent in going with a next generation system, the Department had planned to "pilot" the new accounting system at one bureau and then determine whether to deploy it departmentwide. Based on its experiences at one bureau, the Department could work out system problems, develop a deployment strategy, and provide realistic cost and schedule profiles. This is no longer the plan.

Instead, the Department has decided to pilot the new system at three separate locations--NIST, Office of the Secretary, and Census--by October 1996. Regardless of bureau choice (which I will comment on momentarily), most people responsible for implementing the system have expressed significant concern about the three-pilot approach. Under this approach, qualified staff (already in short supply) are diluted, costs are increased, complexity is tripled, and the Department is essentially locked into this system regardless of outcome. Unfortunately, the risk is even further increased by the Department's schedule and choice of pilot bureaus, which is my third area of concern.

Before agreeing to be one of the three pilots, NIST top management listed conditions upon which it would participate. One condition was that it would be allowed two years to fully implement the core accounting system. Keeping in mind that NIST is in relatively better financial management shape than the other two, I would point out that the Department's schedule calls for Census and the Office of the Secretary to implement the core accounting system during the same time frame. Because of the small size and accounting simplicity of the Office of the Secretary, its choice does not concern me nearly so much as that of Census.

The idea that Census will be anywhere near ready to begin hosting a new next generation accounting system in the near future is

unrealistic. Census has a wide range of major financial management problems--no Chief Financial Officer, a shortage of qualified accounting and financial staff, and poorly maintained, antiquated systems. Additionally, our recent audit survey identified inaccurate financial reporting, improper cost accounting, poor controls over ledgers, and other internal control deficiencies. Finally, Census is just undertaking a major agency reorganization.

We recognize that Census is very concerned about having the new financial management system in place to support the decennial census. I understand the dilemma. However, I believe that CAMS and Census' needs for the decennial should be decoupled. My primary concern is that Census is viewing this new technology as a critical solution to its financial management shortfalls rather than one of many steps it needs to take to improve financial management. This view will probably lead to corrective actions being deferred, resulting in the same inaccurate and unreliable data residing in a new and costly system. Given the risks, to ensure its readiness for the decennial, Census should plan now for alternatives to a fully implemented CAMS, including using its existing systems or another agency's systems in the interim.

In conclusion, I want to make it clear that we support the goals of CAMS; however, we are very concerned about the strategy. The uncertainties and complexities surrounding CAMS, the Department's overall poor financial management condition, the three-pilot approach, and an ambitious deployment goal clearly add up to a risky situation. We are working closely with the Department to identify means to mitigate risks so that the Department reaches the common goal of improved financial management.

This completes my statement, Mr. Chairman; I will be pleased to address any questions.

Mr. SPRATT. I think that is the kind of straight advice we need, not just we but the Commerce Department itself, and we appreciate your candor.

I think it is important that it is given in the most constructive sense. Your idea was to get this done and get it done right. I think that is an idea we share here on this committee, and certainly at the Commerce Department I don't doubt anyone's sincerity about getting it done.

Let me begin by asking some basic questions to see if we can come to a clear understanding about what we are talking about. We are not just talking about green-eye-shade accounting, of course. And sometimes we lapse into that when some of the questions I have to ask you are of that genre, keeping tabs on the travel accounts and things like that. That is part of it, obviously. You are spending government money and you have to be accountable for it down to the last penny, and that is why we have strict auditing requirements, or should in the government. The public has a right to know its money is spent on its business.

But in addition to that, we are really talking about financial management and not about just strict auditing oversight. Let me try to state what I think some of the objectives here are.

First of all, I think we want a balance sheet. From time to time, we want to take a still picture of the Commerce Department from period to period and say these are the assets; these are our liabilities; here, by the way, are our contingent liabilities, and they are significant; and this is what we have to show at this point in time for what the public has spent on weather, on national standards and technology.

Second, we want some sort of programmatic budgeting. The balance sheet will probably not tell us everything that we need to know. The Bible says where your treasure is, there also is your heart. We want to know where our priorities are, and we want it broken down into programmatic things so we can understand here is what we are spending on weather forecasting, here is what we are spending on technology development. This is something that McNamara tried to do with the Defense budget in the 1960's, not with great success. But I think it is still a goal, even an elusive one, that we ought to keep pursuing: Programmatic budgeting so you can look at the budget and not just get a still picture of different accounting accounts but also get a picture of where the priorities are and to what extent we are meeting them.

Connected with that is measurement, measurement of human performance, because you have, I think, 36,000 people working in the Department, and it is extremely important that we know whether or not we need 36,000 people, whether or not the same job can be done with 24,000 people. Particularly when you are measuring productivity in a services-oriented business, it is hard to do and you have to come up with different means of doing it, but it is something that we—this is one of the things probably you need to invent especially for the government.

Then when you have projects—this is especially true in the Defense Department, which is where I started with government accounting—we need some kind of variance analysis system, something to establish a baseline not just for costs but for the technical

objectives of the project, for the scope of the project, for the timeliness of completion, and we need to track it from start to finish and be able to account to the Secretary of Commerce and others above him for the fact that you had a certain sum of money to do a certain thing and you achieved it within cost or within schedule or you were over or under by this amount. And you can report the same to the Congress.

My impression is that we are still a long way from that in your Department and every other department, including the Defense Department. When I was in the Defense Department in 1970, we undertook to create something called the selected acquisition report, and it is still woefully inadequate for measuring scheduled technical and cost performance on major Defense procurement projects. True in the Department of Energy, true in the rest of the government where even less attention is focused on it, but surely that has to be part of your quest for financial management.

Then there is cash management. Does the Federal Government use the cash that is given to it in an efficient way? Cash is money, has time value to it. Are we using cash efficiently or could we actually run the government with less cash-flow, and how do we measure that?

So these are just some of the topics that come to my mind that are a lot different from green-eye-shade accounting, and that may or may not be found in off-the-shelf commercial software.

Is this what you are undertaking to do? And are there other things that you are pursuing right now? If so, how?

Mr. BLOOM. Well, basically you have done a great job of summarizing what we are trying to accomplish. You know, the balance sheet, the income statement, auditing, it is just a small part of it. What we are really talking about is management and using financial management to help our program managers manage better. They need better information to manage what they are doing. They need information to measure their performance. Measurement is very important and it is very important to this system. In fact, the Deputy Secretary is fond of saying what you measure, you get, and what you measure the most, you get the most of. And we are really embracing that concept.

And we believe that the system that we are going to install—well, we are going to demand that the system that we install do that.

Mr. SPRATT. Let's take it one at a time. To what extent and how would you craft a balance sheet, a still picture of the Department of Commerce from period to period? What would your assets be? What will your liabilities be? How do you do that? And is it a worthwhile document to try to cast a department like the Department of Commerce into a financial accounting balance sheet?

Mr. BLOOM. Well, it is somewhat worthwhile to have a combined balance sheet for the Department of Commerce. It is more important that each bureau has a balance sheet that is correct, because it gives us a base from which to operate from.

Again, if you are going to measure, you have to know from where you are starting. It will not be as difficult to put together a balance sheet as it will, over time, to put together the income statements.

And in fact we are starting first with balance sheet audits, and then moving on to doing the statement of expenses and income.

Mr. SPRATT. Now, when you do a balance sheet audit, are you doing a property inventory to see if the property that you purchased is still there?

Mr. BLOOM. Yes, that is a significant part of it.

Mr. MCSHAN. Mr. Chairman, I would like to add to what Tom is mentioning. This system is very comprehensive, as he has alluded to. It is much more than just an accounting system. It does include all what you were describing. It does have a payroll personnel module, which will measure how the people are spending their time. It will do project accounting, and we can measure that against the performance of the individual as well as performance of a program.

We have a travel module, we have a procurement module, and so forth. So it is a very comprehensive system. It has a budget formulation module to help our budget people with their budget formulation. So it is more than just the accounting.

But as part of the core financial system, we do have a general ledger. And the general ledger will have all the elements that you would need to prepare a balance sheet, the assets and liabilities and so forth. So we do think in addition to just having a green-eyeshade, you want to call it, accounting system, we will have a comprehensive management information system that will be available to us. And that is all part of our implementation strategy over the next 4 years. It is not just the core financial system.

Mr. SPRATT. Well, for example, in your general ledger, what does your chart of accounts look like?

Mr. MCSHAN. The chart of accounts is going to be the standard U.S. Chart of Accounts as specified by the Joint Financial Management Improvement Program.

Mr. SPRATT. OK. So there is a governmentwide chart of accounts that goes into everybody's general ledger?

Mr. MCSHAN. Yes.

Mr. BARRAM. Can I make a comment? I share Tom's view of the completeness of your list. The question was a good question. Briefly, I used to counsel young accountants, after I was not young any longer, that you can't play around in the basic, big management issues until you keep the books right. And so underlying all of what we are talking about today is a commitment to getting the books kept right. I think we are getting the information today. It is not very efficiently done. So we need to do that more efficiently.

We also need to do these other things, like the variance accounting you talked about, the idea of having measures. We need to have—and we need to get—information to managers quickly. If you close your books 3 weeks or 4 weeks after the end of a period, it is probably close to being too late to do anything to make a decision that matters. So it is hard for us then to help managers that we are trying to teach how to manage in 1994 style, how to use information to manage if we don't get it to them quickly. So it is very important that we get the system in quickly and that it provide information very quickly and that it do the budget versus actual kind of variance that you talked about.

Those are essential things for us. But we don't get to do any of it unless we keep the books right, unless the balance sheet is right, the property is right, the travel is right, and so forth.

Mr. SPRATT. Mr. DeGeorge, you are concerned about having the resources in your own IG department to maintain an audit venture on the process, and you are also concerned about the resources for implementation, as I understand your testimony.

Mr. DEGEORGE. That is correct, Mr. Chairman.

Mr. SPRATT. Is this a lack of budgetary support for this project?

Mr. DEGEORGE. Well, there is no lack of will on the part of the Department, including Mr. Bloom, Mr. Barram, and myself, to get the job done. And I know the budget requests over the last 3 years have been made. There is a history here that goes back to when Jamie Whitten was in charge of the Appropriations Committee. He basically disagreed with the financing of the additional cost to do the audited statements.

Because of his recommendation, the budget process 2 years ago came out fairly uneven. Some agencies got funded, others did not. The Department of Commerce has not been substantially funded for either the development of the financial systems or for any auditors to do the internal audits for about the last 2 or 3 years.

OMB suggested about 1½ years ago or so an alternative process which the Department has supported. In effect, the process is to assess the agencies for the cost of the audit of their financial statements.

I have only one reservation about that. It places me in the uncomfortable position of having a large part of the audits in effect paid for by the people for whom we audit their financial statements.

The Department has been very accommodating and has worked with us to get the money from the agencies. I will add that the recent budget change this year, at least in the House markup, suggests strongly to the Department, and I would read it as an order in my opinion, that they move those budget dollars from the agencies who have been assessed the dollars, directly to the IG's appropriation. And I think that will make us all more comfortable.

Mr. SPRATT. You also express concern about the plan of implementation going with three bureaus at the same time instead of going bureau by bureau. If you went bureau by bureau, wouldn't it take an interminable amount of time?

Mr. DEGEORGE. I would not suggest we go bureau by bureau, Mr. Chairman. What I am suggesting is that, if you want to go to three agencies or four agencies, any number you want, do so. I would even support that.

What I do not support is one of the original three agencies being the Census Bureau, given all of the problems that I see at the Census Bureau right now. I would prefer that the Department prove the design of the new accounting system at NIST, and then migrate the system to Census after they basically get it in proven concept and digested.

This is, and I do not want to elaborate on it, but I will reemphasize that Commerce is the first department to install this generation of accounting systems. And if I can make the contrast, we are the first department to do this in a very ambitious way.

Census has probably been one of the most poorly managed financially accounting systems in the Federal Government at the same time. In addition, the Census Bureau is changing the methodology for 2000, its process for the decennial, and doing so at a very crucial time between 1995 to 1997. I wish like the devil, as much as these gentlemen do, that in effect, the new system was already implemented now so we could make the transition to a basically and inherently more difficult way to do the year 2000 census. It seems to me that a new accounting system and a new Census approach unfortunately hit at the same time.

Mr. SPRATT. Now, is the problem that the software package has to be adapted to the use of that particular bureau or agency? Or is the problem one of teaching people to use it and apply it within the agency?

Mr. DEGEORGE. I don't think it is a problem so much of developing different software packages, agency by agency. I think the intent of the design is to come up with one core software design. But it is clear that there will be agency application differences. And those agency differences will have to be implemented at the same time.

I might also add that in addition to everything else, none of the administrative support systems are yet completed. Commerce will be simultaneously developing a supporting payroll system, although I presume the payroll system is adaptable from Agriculture. But we will also be adapting new administrative support systems for procurement, travel, and other administrative modules, contemporaneously.

We also have a considerable amount of account reconciliation to complete. The problem with confirming this balance sheet—the accounts that identify the assets of property, personal equipment, et cetera—is monumental. Those subsystems today have substantial problems. So reconciling those accounts or coming even close to identifying even assets and liabilities, in order to start this system off in this timeframe, is quite difficult.

I don't want to give the appearance at all, Mr. Chairman, that I think that this accounting system is not the right way to go. I think it is. I would just wish that we didn't have to impose it on Census at this point.

Mr. SPRATT. One of the problems that the military services have experienced—Mr. Barram as a naval officer and probably the supply corps officer, I am sure can appreciate this—is they have tried to implement the Navy's standard system throughout the Pacific, for example, from command to command. Each command wanted its own particular adaptations, its own accommodations in the system, and pretty soon the system became unwieldy.

That is what I was getting at there, whether you thought if it started with Census and Census had to have its own particular additions to the package, do you see that problem looming as one of the problems?

Mr. DEGEORGE. No, I don't. I think the Department has the leadership and the discipline to install a basic system along with the support systems. And if they don't, I think it could be a problem. However, I don't see any intention on the Department's part to do anything other than apply that discipline to the process.

Mr. SPRATT. I have some more questions, but let me share the time this morning with Mr. Cox. And we have also been joined by Mr. Horn from California and Mr. Green from Texas. Mr. Cox.

Mr. COX. Thank you, very much.

I would like to start the focus with a review of the law and what we are doing to comply with it. Because I was struck most by Mr. Bloom's presentation announcing that we will have a pilot project in October, not of this year but next year. That is a pilot project.

Now when I looked at the act, it didn't say anything about starting pilot projects next year. It said that we needed financial statements for fiscal year 1991 on March 31, 1992, and that they would be audited by June 30 unless you got a waiver from OMB. And likewise, they would be due March 31 every year thereafter, in 1993, 1994, and so on. And yet we are starting a pilot program, not in October of this year, which is still several months away, but next year. That strikes me as embarrassingly weak and ineffective and violative of the law. And I wonder if I could ask Mr. Bloom to respond.

Mr. BLOOM. Sure. There are actually two parts. There is the audit side, which we are actually making movement on, and there——

Mr. COX. I want you to stick with the law, because the law doesn't say make movement by 1995. The law says do it by 1993.

Mr. BLOOM. OK. That is on the audited financial side.

Mr. COX. Actually, it said do it by 1992, excuse me.

Mr. BLOOM. And they are—and that, I am sure Mr. DeGeorge, will speak further on that. But on the audit side, they are implementing what you might call pilot sites.

Mr. COX. Why are we doing that? Why aren't we trying to comply with the law?

Mr. DEGEORGE. Well, I will try that one, Mr. Cox. We are trying to comply with the law.

Mr. COX. I mean——

Mr. DEGEORGE. We are coming as close——

Mr. COX. Why are we trying to comply with the law rather than complying with the law?

Mr. DEGEORGE. Well, for two reasons. The first reason is Commerce never received any funding to implement the audited statements. Second, it was an impossible condition. Commerce could not possibly come up with—I won't even say audited statements—any statements 2 years ago. All the energies of the Department and the IG have been directed toward doing internal control reviews—identifying internal control weaknesses, to see how we could get to producing financial statements.

Contrast that to our current approach. We could easily provide negative statements today. We could easily say almost all of the Department is unauditable. I didn't think that was very productive. We could have worked like the devil for 3 or 4 months and confirmed what we all believe, that these were unauditable financial statements. We all felt that the most useful thing we could do was to review internal controls, move subsequently to balance sheet audits, and finally to full compliance audits in that order. I think it has worked pretty well and I think the Department has agreed with that approach.

There have been other complications, too. There have been no resources, none, until the last year and a half or so. We transferred from our office of audit about 20 people, which is roughly 20 percent of our available auditing staff, and took them away from other work, because I thought it was that important.

Mr. COX. But Mr. DeGeorge, you and I met before this hearing and I asked you whether or not the Secretary doesn't have authority to reprogram funds within Commerce's budget to do this, and you said he does.

Mr. DEGEORGE. He does now, sir.

Mr. COX. So why didn't he do that?

Mr. DEGEORGE. We did, starting about 1½ years ago. Before that, the previous Secretary did not. They relied, in effect, on trying to get the budget of the IG increased.

Mr. COX. We have had the necessary funds for 1½ years. Why are we putting off past this October into next October a pilot program that still doesn't comply with the law?

Mr. DEGEORGE. Well, there are two issues. One, the financial statements themselves. I would tell you, and I would presume that my colleagues at this table would agree with me, all the energies in the Department have moved toward getting us to the point where we can get audited statements by the end of our 5-year plan, which has been blessed by the General Accounting Office, OMB, and everyone else. We could have rushed to judgment and come up with disclaimer reports everywhere, and technically met the requirement of whether we had audited statements.

Mr. COX. I am not interested in technical compliance. In fact, I am seeking to agree with one of your statements, which is that although there is a major project under way to develop a new system, it is essential to produce accurate financial information from existing systems.

Mr. DEGEORGE. Yes, sir.

Mr. COX. When I saw Mr. Bloom's presentation about relational data bases and so on, it was very exciting, but it strikes me that that is another order of complexity for a task which really needs to reduce itself to general ledgers and ultimately to the financial statement itself, rather than to the making any sense of the tools we use to produce those rather mundane numbers.

Mr. DEGEORGE. I think every energy in the Department should be used to come up with as close to a reliable balance sheet as we can.

Mr. COX. Mr. DeGeorge pointed out that Census has created a CFO position, but we haven't yet filled it. When is that going to happen?

Mr. BLOOM. Very soon, within the next month we are hoping to have a new CFO on board. Very soon after that, there will be a comptroller named also.

Mr. COX. Now, Mr. Bloom, I wonder whether it is fair for me to ask about your wearing two hats. The Chief Financial Officer in Commerce is also the Assistant Secretary for Administration, which I understand requires your supervision of the Department's civil rights, procurement, human resources, and information management functions. Shouldn't we get a full-time CFO?

Mr. BLOOM. Well, you know, it is a double-edged sword, and I have talked to my counterparts at other departments that have just the financial management side and maybe they don't have the budget, maybe they don't have the procurement side. And they feel that they are handicapped from that standpoint. Sometimes it is a burden to have all these functions. But I think overall, it has been a benefit.

Also, I have been blessed with a great Deputy CFO who stands in for me a lot of the time when I am busy on other projects. I also have a very strong Deputy Assistant Secretary on the administration side. So I think that in this case it has been a real plus to have the procurement side, the personnel side, the budget side, as well as the financial management side, under my wing. It would be much more difficult if I didn't have the strength and support of Mr. McShan and Gloria Gutierrez.

Mr. COX. Well, certainly the Deputy CFO function is one stressed in the act itself. But to an even greater extent, the CFO function is the subject of the act. And in rereading it, just as we sat here—and I have certainly been involved with the CFO Act over a long period of time—it is quite clear that the tenor of the act does not contemplate a part-time CFO. It contemplates a full-time CFO whose exclusive responsibility is carrying out these functions. I think that Commerce, therefore, ought to reorder itself in that fashion.

I certainly don't think a part-time CFO complies with the spirit of the act, and obviously the result is that we are not complying with the letter of the act in terms of being able to produce audited financial statements.

Another one of the inspector general's comments is that most of Commerce's bureaus have an acute shortage of knowledgable managers and accountants. Now we haven't appointed the people at the top at Census. We have got a part-time CFO for the whole Commerce Department. Am I to understand, Mr. DeGeorge, that you also think we have an insufficient number of accountants throughout Commerce? Or at least——

Mr. DEGEORGE. Systems accountants, yes, sir.

I would suggest, and have suggested for some time now, that we need CFO's in all of the agencies. That would include both the budget and the financial and the systems processes. But there is a shortage of systems accountants, accountants, and financial management. The administration is aware of that and is also moving in the right direction to add the resources. This has not been an area that has been a growth area for previous administrations. I think it is way overdue.

Mr. COX. By the way, I understand the opportunities that Washington presents because of the constant turnover in top management to lay things at the feet of the people who used to be in charge. It is quite clear that the people who have been in charge of Commerce since it was created by Teddy Roosevelt have failed in this function. But the CFO Act was passed in order to stop that, to put it to an end, and we have now had the better part of 2 years to get a look at it in this administration.

So given that the Secretary has had for 1½ years the opportunity to program funds to this function, and given the command

of the law that the function be performed, I think the purpose of this hearing obviously is to encourage you rather correctly to get on with it. And in the ways that I have noted, I think there are major steps that Commerce can take to do a better job.

I want to agree with the thrust certainly of all your testimony, that we need to move in this direction, this is itself a different perspective than most people who were involved in government had just a few years ago and certainly before passage of the CFO Act. But as I noted in my opening comments, there are people trying to stop the CFO Act, there are people who don't want numbers. But more than anything, we are facing incredible inertia. And getting these reports is necessary not to fulfill a 5-year plan, it is necessary to run the place this year.

Without cost accounting information, without management control information, you can't run the place. It is that simple, and the place, therefore, isn't being properly run. And we need to move I think much, much more quickly than October 1995 to introduce pilot programs.

Mr. Barram, I would like to give you an opportunity to comment.

Mr. BARRAM. Let me just make a couple of comments. First, one of the other observations one could make here is it takes a long time for new people to get in place. And Tom Bloom has only been confirmed for about 5 or 6 months. That doesn't excuse us from the issues that you are raising, but it does help to explain why we are putting all the energy we are putting into it now and weren't able to do so as much before.

The other point I want to make is that there is always a great tension between installing a new system and using resources to get from 99 to 100, 98 to 99 in your accuracy. It is a tough issue. We have a $4 billion budget. I don't think in the context of the Federal Government that we are unable to know where a substantial amount of money is. We absolutely need to have a system that gets us the kind of accuracy we ought to have. We want to install that system. We want that system to do many more things and be flexible and changeable as the world changes out there. I think that we have to be a little careful how much energy we put on the former, while we are developing the latter. We can't not do it, we can't not do a good job, but we have to not lose our focus on putting in the system.

And I agree with you that we should put it in—we should do these things much faster. Your IRS analogy was a very interesting one, we should be doing things faster and faster.

Mr. COX. Perhaps a better analogy still would be to put you back at Apple and assume that Apple acquires another company that makes a nice product but has no internal controls. How long would it take you to figure out what things really cost in that place and how long could you live if you didn't do it?

Mr. BARRAM. Well, the first thing I would do is make sure I had a sense of materiality about it. If I thought that it was completely unidentifiable, what the costs were, I probably wouldn't buy the company.

Mr. COX. Probably most people wouldn't buy these agencies.

Mr. BARRAM. So I think that, you know, one of the great lessons that one learns as a young accountant is a sense of materiality. If

you don't, you will drive yourself and you will really drive your clients crazy.

I think that we are trying to hold on to that sense of materiality as we go through this process. Your encouragement is strong, we take it very seriously. I just think that we have to be very, very focused on getting the kind of a system in place that lets us use technology to be more productive.

To Mr. Spratt's point earlier, do we know if we have enough people or too many people in our organization? We can sort of judge that on a qualitative basis. But we don't have as good a skill at measuring what number of people provide for output and we need to do that. That is what these systems will help us do. We could spend a lot of time doing analysis on that right now. I am not sure that would be material, it would get us the kind of leverage we need.

Mr. COX. Well, in conclusion I want to ask your indulgence for the tenor of my comments directed specifically to the four of you, because, quite frankly, while I think the tenor of the comments is in order, you are the least likely four people to whom I should direct these comments. You are the four that are working on trying to fix it, and the problem is we have a big agency that exists all around you that in some respects isn't cooperating. In some other respects, isn't providing the resources you need to make them cooperate.

Governmentwide, this exercise is a lot like pushing a string. And what we have got to do is just raise a whole lot of hell to make sure that the job gets done. The law was passed several years ago.

I want to commend the chairman once again for convening these hearings. It is vitally important that Congress conduct oversight because without that kind of energetic hell raising on the outside, I think we will just continue muddling through as we have been for so long, wasting billions in the process.

Mr. SPRATT. Thank you, Mr. Cox. Mr. Horn.

Mr. HORN. Thank you very much, Mr. Chairman.

Deputy Secretary Barram, you are in a unique position with your background as a financial officer in two or more private corporations. Have you had an opportunity to thoroughly sit down and look at the financial systems you now have in Commerce and think back to the financial systems you had in the private sector? Have you had that opportunity to go in depth into the financial systems of Commerce?

Mr. BARRAM. To a moderate level. I have a lot of confidence in Tom and we have talked about this at great length. And, if your followon question is going to be, are they in the ballpark, they are dramatically different. They are totally different.

Mr. HORN. Could you give us that, those differences, how you see the differences that we are trying to run the government with versus how you had financial accountability in a private corporation?

Mr. BARRAM. Well, as you know, my background is in the high-tech companies that were fairly small and quick acting. I have had experience where I had to worry about whether we had enough cash to pay the payroll. I have been in a bigger company where that wasn't a big issue. But in every case, if we needed to change a system because conditions changed, we could do it.

Here, I still haven't figured out—maybe Tom has a better handle on it, but I still haven't figured out what constituency isn't going to like doing that, including Congress or whatever. And so that is different. There is a totally different—you are much smaller—you are much more self-contained than here.

When we went to get the CAMS system, to get approval, so to speak, to purchase or to buy the systems, we had to go through a process that was completely different. I mean, it just wouldn't have existed in the private sector.

In the private sector, we spent a good amount of time doing what the chairman talked about in terms of a variance analysis. That, we don't seem to have as much emphasis on that here in part because we don't have the kind of confidence in the underlying financial information. And we don't have our budget and financial system, I was going to say, like in the private sector, we have them always knit together, but that wasn't always true either. But that was absolutely your goal. If you didn't, you knew you were dead wrong in doing that. You know, those are the key differences.

Mr. HORN. So basically you would say certainly with Apple that your financial system was tied to your management information system, or was it?

Mr. BARRAM. Yes.

Mr. HORN. OK. Do you see the possibility of tying the proposed financial system under a CFO to a sensible management information system that really gives the executives what they need to know, not simply what a CFO can measure?

What worries me is what accountants measure and a lot of people measure and McNamara measured—heaven knows, although we have the expert here, as the chairman, who knows whether they did or they didn't—often things that you can count, which aren't the important things necessarily. And where you strike that balance is very important.

Mr. BARRAM. Well, we would be really, really stupid if we develop a system where we don't tie those two together, and we are not going to do that. But the other part of your question suggests something, and that is we need to be as customer oriented from the finance CFO side toward our bureaus as our bureaus need to be toward outside customers.

We don't—the government doesn't have a lot of managers who have a lot of experience at managing financial statements and management information and variance analysis, so we have to both teach and figure out what they need. That is a central part of what we are about, what our new system will do for us.

Mr. HORN. Have you had the opportunity to just look at the comptroller functions within the Department? Do they have desk manuals, for example, for every position, so if somebody drops dead they know how to run the system now, as bad as it might be? I mean, what kind of controls do we have there?

Mr. BARRAM. I should probably—Tom Bloom can answer the question better than I, as he will probably be amused to hear you ask the question, because I am never very fond of too many manuals. Because I think we end up, sort of to your earlier point, we manage to the manual and not to what we really need to do. But

I mean if you want—I can't answer that in the kind of detail you might find interesting.

Mr. HORN. Mr. Bloom.

Mr. BLOOM. The answer is, yes, we do have the correct manuals. But Mr. DeGeorge is absolutely right, we need to work on getting the right people to implement the manuals under the current system and make sure we have the right people to implement the manuals under the new system. But the manuals are there.

Mr. HORN. Having gone through this as an executive for 20 years, I found running a public institution is far different when you hire people from private institutions. Some of them just faint and collapse and leave. I just wonder if any of you with that experience, has it been such a shock that you are under treatment somewhere or something like that?

Mr. BARRAM. Oh, we love it.

Mr. HORN. I am glad it is stimulating.

Mr. BLOOM. I fortunately have had the opportunity to be on both the private side and some public experience. But I can tell you that the first time I was in the public sector, that first 6 months was a real trauma.

Mr. HORN. Yes. Mr. Bloom, how do you spend most of your time as Assistant Secretary? What problems really occupy you?

Mr. BLOOM. Well, the CAMS project is a big use of my time. I do spend a fair amount of time on the procurement side, as well as the personnel and civil rights side. But I see that procurement, particularly procurement and the CAMS project take an awful lot of time.

Mr. HORN. What percentage of your time do you give to financial management in the sense of the CFO Act?

Mr. BLOOM. I would say at this point, 30, 35 percent, maybe 40 percent on a good week.

Mr. HORN. Really that much?

Mr. BLOOM. Yes, yes.

Mr. HORN. See, I have Mr. Cox's concerns on this. As commendable as it is in some ways to get integration through your position, I can also see that everything else you have got to do, budget planning and organization, information resources, procurement, human resources, all of those have hot potato areas. And I would think that drives out the time and the patience you must have to get this system turned around and deal with financial management. Wouldn't you agree with that?

Mr. BLOOM. Well, a lot of those areas, the information systems, for instance, tie in very closely to management and financial management. The budget process that you mentioned also is a big part of financial management in the financial system. So a lot of it is integrated.

Clearly some of the functions I have, the civil rights function, for instance, don't focus on the financial management. But a good number of the things that you mentioned really tie in very well. And if I didn't have control over those and I was a stand-alone CFO that didn't have IRM or procurement, I believe that it would make my job more difficult.

Mr. HORN. Do you regularly meet with other CFO's in the government?

Mr. BLOOM. Yes. Actually, one of the great things that has happened in the last 6 months is that the CFO Council has really become a strong council. We meet monthly on a formal basis. We meet informally on a regular basis. We are working closely with the CFO at Education on a project. I spend a lot of time with George Munoz, who is the CFO at Treasury.

The CFO community and the Deputy CFO community are really working together. We had a 2-day offsite where we spent 2 days with each other, got to know each other, got to know each other's problems, and that has been real encouraging.

Mr. HORN. Are any other CFO's organized as Commerce is organized, with the Assistant Secretary and that position combined?

Mr. BLOOM. Yes, there—it is a mixed bag. I would say maybe half and half. For instance, George Munoz at Treasury has the same responsibilities that I have. It goes from what Treasury and Commerce have, all the way to say the Department of Education that has a CFO that doesn't even have the budget function. And if you were to talk to him, he would say that that limits his ability to get things done. But it does run the gamut throughout the government.

Mr. HORN. In the sense that the CFO is supposed to be the equivalent of an auditor, an auditor general, a comptroller, which in a way shouldn't have to worry about does it match the budget function in some sense, in the sense of protecting a decision that has been made in the budget function, they ought to be objective, it would seem to me, as GAO tries to be, where they have outside perspective and are not wedded to a decision that has been made and thus trying to rationalize that through a financial accounting system.

And it seems to me there is a real danger there when you merge an operational budget decision, which is often a political decision, with a financial accountability decision. Do you see that difference?

Mr. BLOOM. Well, you know, I can see where there might be a conflict, but if you are intellectually honest in the position as the CFO, you are not going to let that interfere with your performance of your job. I don't really see that as——

Mr. HORN. Well, if you are intellectually honest, you might be criticizing one of your own acts which you took as a budget chief, budget officer of the Department. I think that is what has us worried here.

Mr. BLOOM. I hear, I hear what you are saying. I don't necessarily agree, but certainly something.

Mr. HORN. Let me pursue another line. To what degree and how much do you relate to the Deputy Director of Management in the Office of Management and Budget?

Mr. BLOOM. We——

Mr. HORN. Have you ever had a meeting with him?

Mr. BLOOM. With——

Mr. HORN. Well, the former. You started out, he is now a woman.

Mr. BLOOM. Started out with Phil Lader. Unfortunately, Phil and I only overlapped about 2 weeks. I did have one meeting with him. I meet on a regular basis or have telephone conferences on a regular bases with Hal Steinberg, who has been pretty much filling in on the comptroller side.

Mr. HORN. Has any leadership been provided by that position in the Office of Management and Budget?

Mr. BLOOM. Yes.

Mr. HORN. What leadership have they provided?

Mr. BLOOM. Well, for instance, Hal Steinberg has met with us a couple times on the implementation of CAMS, the financial management system. He has given us some insight and some guidance of what he has seen, you know, throughout the government.

Mr. HORN. Have any goals been set by OMB to say we ought to be proceeding at this pace to get this job done and carry out the law, or at least sitting there holding meetings?

Mr. BLOOM. There have been no specific goals that they have set because we have set our own goals, and I believe they have bought into those goals. I think they see that our approach is ambitious, and are supportive.

Mr. BARRAM. Let me just add one comment, if I could. When we were trying to get Tom through the White House process, one of Phil Lader's great concerns was the concern you are raising, can we do—should somebody do both tasks. So we did a lot of real hard thinking about it. And Phil asked tough questions, much like you are doing.

So we had to satisfy ourselves that with the Deputy Assistant for Management, Gloria, and with Clyde, that we had the kind of strength of experience, people that allow Tom to do the combined job. Because clearly he is capable, intellectually and experience wise, of doing it, and I think he has done a great job. And it would really trouble me if we tried to decouple too much at his level.

I think it is fine to decouple as we go down, but in most private sector organizations a CFO has the kind of broad responsibility that Tom has because it is a very serious—the CFO is a very serious member of the management team.

We have at Commerce an executive management team made up of the heads of the bureaus, the general counsel, the CFO, and we meet every couple of weeks. And it is real important for him to bring the kind of breadth he can bring to those discussions. And because we don't have in the government people who are experienced at managing and managing budgets and accounting and accounting information, we have a lot of teaching to do.

Mr. HORN. Does the Deputy CFO sit in on those meetings?

Mr. BARRAM. No. This is an executive management team. We have 10 or 11 bureaus, as you know, so we have a small group of maybe 14 people, including the Secretary.

Mr. HORN. Well, what I was pursuing on OMB is the degree to which, A, the management function is active, and with this change, I don't know if it is or it isn't, and, B, does anybody listen to the Deputy Director for Management in OMB, because one can argue they don't have the budget clout to get your attention. And people can just sort of think this is an interesting intellectual exercise, but that job ought to be providing overall governmental leadership in the CFO area.

Mr. BARRAM. Clyde wants to comment here. The President's Management Council meets once a month and we spend a significant amount of time on broad management issues. But I will let Clyde comment on this.

Mr. McSHAN. On the OMB involvement and the CFO Council involvement that Tom was mentioning, the CFO Council just has undertaken the last couple months an effort to come up with an overall vision, goals and strategies for financial management governmentwide. And we have done that. And OMB has come up with a strategy for and a vision for overall financial management systems, a vision for financial management systems governmentwide again. And I think they are demonstrating the leadership.

Obviously, I would like to see the Deputy for Management filled, the job filled, and I guess it has been nominated now, and the controller's job we would like to see filled, too, because we were getting a lot of support from both the controller and the Deputy for Management. And I do think that Hal Steinberg has filled in very well and has given us some good support and advice.

Mr. HORN. One last question, Mr. Chairman. That is, maybe it is premature because you are into "demonstration projects." To what extent has the Department of Commerce at this point in time sorted out what are the management measures, the output measures, that it wants to function by and that the Secretary and you as Deputy Secretary need to know in order to see if people are achieving goals in some orderly manner? Have those been decided? Is the thinking that they will be related to the financial management measures? And if so, where are we on this process?

Mr. BARRAM. We have objectives and goals for each department, which we have had since the beginning of this administration. We have in the last couple of months begun a series of division reviews, generally a whole bureau, maybe a part of a bureau, in which we have been discussing very significantly the thing that Tom mentioned about what you measure is what you get, and what you measure a lot you get more of.

We are working through the programs that people have and the kind of attention that they pay to them to establish what we are really trying to accomplish and setting out some metrics.

As I said in my testimony, the most important skill is the ability to adapt to change. So we need to be very good at adjusting objectives as the world changes and holding ourselves accountable to reaching them. We need to do both, manage the task and help people manage to financial information, which is that tension I mentioned earlier.

We could push people to manage to financial information, but if we are not providing it quick enough and it is not meaningful enough, we are not going to get as much power and as much leverage out of it. So that is the tension.

Mr. HORN. Thank you.

Mr. SPRATT. Thank you, Mr. Horn.

Mr. Green, and before you ask any questions, let me note that you submitted a statement for the record. If there is no objection, it will be made part of the record prior to the testimony of the witnesses at the outset of the hearing. Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. A lot of the questions have been asked, but if you have come from private business into this you can see the frustration that some of us have in seeing that we have a $4 billion agency that is not auditable. It has gotten to the point where it can't even provide the travel regulations, travel

records requested by GAO. It is the horror story that we hear when we go home to town hall meetings, that we are out of control. Many of us, whether it is a large agency or small business or large business, have seen what you have to do in management controls.

And I want to share with or at least associate myself with Congressman Cox's comments and Congressman Horn—I think you are divided up too much, your loyalties. And I understand to get folks' attention, you also have to have, as a CFO, the procurement responsibilities. But human resources and some of the other things, I think where the agency is at, we need to set priorities and say, well, our agency needs to have some financial basis for it and we are not there so maybe the CFO function needs to spend more time with it and use some of the hammers that you have from your other position to get the attention.

But one of the concerns I have in the Department of Commerce, that they run many programs, and I know NOAA takes up half the budget. I serve on Merchant Marine and I am real familiar with NOAA, but Commerce runs a lot of programs that strive to improve our competitiveness. And I was wondering if the CFO Act would require some cost-benefit analysis on those. And have you seen any or do you know of any that make sure that what we are marketing our products overseas or really what we are spending for that marketing effort is coming back to us? And I know that is a separate function, but that is one of the concerns I have.

And again, most of us are not government related, except the chairman, and so we have had a profit and loss at the end of the year that we could look at and we don't have that in the Department of Commerce or agencies. But we do have the goals that you said you articulated that you have. But there still has to be some basic financial information.

I was surprised in one of the questions concerning travel records and the GAO, that just to get some beginning audits to be done, to do it, is so difficult. And I know you have the 1995 goal, but as other members have expressed, it seems like it needs to be done now. And you said the same thing, it needs to be done today and not a year from now.

And again, I know you are new on board, 6 months with an agency like this, and I know you are frustrated. You can see some of us who may spend a little bit of time just overseeing the agency from the committee. It has got to be frustrating, because again we are the ones that end up having to defend it, say, well, we have an agency that if I had a businessman in my community who couldn't stand up to an audit either by his outside accountant or an investor or just the State comptroller coming in and audit them on their sales tax, it would just be, you know, they just don't understand why we can't do that.

It is frustrating, I know you share it, too, coming from—it was Apple.

Mr. BARRAM. Well, I do. I think we have done a terrific job in the minds of most business people that I talk with on the programs and on export strategy and on our technology policy. And they, like most people in America, are happy about that, because that is what they are interested in.

But if they step back and look at it from a business point of view, I think they would say why don't you have those records, or why can't you be audited. We don't like that.

The four of us here, as Mr. Horn said, are eager to see that changed and to fix that. I do want to go back to my comment on materiality. It is really important that we not get too carried away ourselves here with pushing. We need to push everything that needs to go ahead at some kind of a reasonable speed; we have an incredibly limited amount of resources and energy to do the things we need to do.

We are trying very hard to figure out what we really need to do so that we can be honest in saying we don't have enough resources. It could be that we are trying to do too much or it could be that we have resources in the wrong place, someplace we are trying to do too much for the resource, other places it is the other way around.

That is a very difficult task—that is not something you can come in and just do instantaneously—it is like trying to get a bill passed in a month. You know it takes a while to work this kind of thing through. And we are really working very hard.

You are right, I am frustrated many times. I am glad I have Tom to yell at so I can get it out, you know, and he is frustrated at times, too. But I think we feel like we have a tremendous reservoir in the Department of people who want to do this and make these changes and really improve things. So it is not like we are so angry that we can't make changes. Sometimes we wish we had more money to do it. I share Frank's concern about not having enough resources or the technology and the accounting system in place to have it come out right. And he made a good choice, I think, in how he approached this a couple of years ago. But, yes, it is frustrating. But it is too important to slow down.

Mr. GREEN. One last question, then we have another panel. And I know the various departments, the Census Bureau and NOAA, since NOAA takes half the budget of the Department of Commerce, has there been some discussion on creating a financial officer at, for example, NOAA or Census, to try and—if you are spread fairly thin—have somebody that would also share that burden with those particular bureaus that you have?

Mr. BARRAM. Tom has worked real hard on that, so let me ask him about it.

Mr. BLOOM. At the Census Bureau, we are very close to naming a CFO and a Comptroller at the Census Bureau. So I would say within the next month we will have those positions filled.

NOAA does have a Comptroller who has the financial management side as well as the budget side, and is a pretty strong financial person.

Mr. GREEN. OK.

Mr. BLOOM. And does take——

Mr. GREEN. How long has the comptroller been at NOAA?

Mr. BLOOM. Three years.

Mr. GREEN. OK. Have you seen some success from the position? I mean in being able to, you know, again half the budget from the Department.

Mr. BLOOM. You know, from what I understand, that person has grown pretty well into that position and we are finding that the information that we get from NOAA on a financial basis is pretty good. You know, there may not be total resources throughout the organization that he might want, but—and maybe Mr. DeGeorge could—he has been around the whole 3 years, or forever.

Mr. DEGEORGE. Well, two comments, Mr. Green. First is that, yes, there is a fairly senior capable financial manager at NOAA. I get into debates even with myself as to whether that is placed high enough in the organizational structure, and I think that is an open question.

Census has reorganized and has created a CFO. NIST has created a CFO position. They are both moving in the right direction.

NOAA has worked very well with our office and also the Department in the original survey work, in identifying the major NOAA internal weaknesses. I think they are committed to moving in that direction as well.

But as you well point out, NOAA is a very large operation with many problems, not the least of which is some of the weather service modernization problems which are costing a great deal of money and concern on everybody's part.

I know the Congress is concerned as well. I have seen every indicator that the Department is willing to add the pressure of its position to bring strong financial management leadership to every agency. I would strongly endorse a CFO reporting to all agency heads, to aid in expediting the implementation of new accounting programs.

Mr. GREEN. Well, Mr. Chairman, I hope that in some future hearing next year maybe we will be able to come back and see some of the successes after you have had a little more experience. Hopefully, you will stay long enough.

Mr. BARRAM. We hope to, and we would very much like to be able to do that in a year, to come back and say, here is where we were last year, here is where we are later.

Mr. SPRATT. We need a variance analysis system ourselves. Let me just wrap up by asking some very basic questions for the record, and we have some other questions which we will submit to you, and we will appreciate your cooperation in answering them.

What is your schedule, your timetable, for complying with OMB's Circular A–127, which calls for a departmentwide single integrated financial system? When do you think you can say that you have fully implemented this system and have it in place throughout your Department?

Mr. BLOOM. Well, right now our schedule is 1998 for it to be totally across the board. We are looking at moving that up as fast as we can to have an integrated system. Our schedule is to start with the three phase I bureaus. If it is going well, we are hoping to implement the rest of the Department in 1996 and to have total implementation 2 years after. Remember, we are integrating not only the core financial system, but all the subsidiary systems.

Mr. SPRATT. Is this resource constrained or resource dependent? Could you expedite it if you had more resources, or will it be retarded unless you get some resources that will be additive to the budget in the future?

Mr. BLOOM. I don't think we are resource constrained at this point. You know, the procurement is under way. We are hoping to have the system procured by November 1994, and then that gives us 10 months to really boot up the systems for the phase I, to get our people trained in the new system, and to make sure that the old systems are up to snuff so that we can make the transition.

We are getting good support from the bureaus. They understand that the human resources and the financial resources are necessary. We didn't get an appropriation from Congress to build these systems. We are doing it by tax—essentially taxing the bureaus. They have been very helpful in doing that and very forthcoming with the money and the resources. So I mean it is an arduous process, but we do have to move along kind of step by step.

You know, again, Deputy Secretary Barram and I both have a sense of urgency and we have actually moved the schedule up considerably since we have been here. But we do want to make sure that we are doing the right things at the right time.

Mr. SPRATT. You have 917 employees whom you identify as financial management employees. Is this an adequate number to get the job done? Are these the right people to get the job done? When you get it done, will you have some efficiencies so that you will need fewer than 917 people?

Mr. BLOOM. It is enough people, we have the numbers. There are plenty of numbers. We do need to have some stronger people. We do need to train those people.

When Clyde started 18 months ago at the Department, there was no continuing education program. That is one thing that he has pushed since he has been here, to get the current people that we have trained and up to snuff.

We do need some stronger financial people. We are adding them. We need them at the top levels in the bureaus, and we need them at the entry level and in the career ranks, the journeymen ranks. It is my guess that when we do have the system implemented, that we will need fewer than 917, that we will be much more efficient, we will be able to give much more with considerably less.

Mr. SPRATT. Let me ask you this. Currently, does the Commerce Department have a repository for storing hard copies, and I guess electronic data storage also, of backup documentation for financial transactions? Do you have a central repository for this?

Mr. BLOOM. I know we have backup for each bureau. Clyde probably knows more about the specifics.

Mr. MCSHAN. As far as the central repository, we really have no central repository for each bureau. Each bureau maintains their own records. Some of the administrative transactions are handled by NOAA and they do serve as a central repository for the administrative transactions.

We are planning on building a Commerce financial reporting system as a part of the CAMS initiative that will have all the—at least to consolidate the information from the bureaus into one place for the accounting data. But as far as a hard copy record, we won't be having those. Those will be stored at the bureau level.

Mr. SPRATT. The GAO has been reviewing the Commerce Department's travel vouchers and travel records at our request, and they submitted formal requests for records on January 11 and February

3 of this year, I think for a selected sample of about 160 files, and 35 have not yet been supplied.

Is there a particular problem here? Are there missing documents, or is there a location problem? And can we expect them to be supplied?

Mr. BLOOM. Well, I think the number now is down to 17. We are not proud of that, but just for the record. Some of the problems we have had is that they have been at foreign posts, where the State Department and—not criticizing the State Department, but they have been at foreign posts and we have had to coordinate with the State Department.

Some of the records, to be honest with you, we just haven't been able to find them. We have no excuse for that. But we are very close to—we know what we are missing now and in most cases we know where it is and it is a matter of getting it from records, getting it in from the foreign posts. So with just one or two exceptions, we should have all the information ready for the GAO to finish the audit.

Mr. SPRATT. Well, as I said at the outset, that is important, because people tend to identify upon things that they understand the best. And the public understands accountability for funds like this. But in closing, let me say that our quest, and I think yours too, is for something much greater than simple auditing assurance.

What we want to do is not just financial accounting, either. We want to find a way to portray the performance of the Federal Government so the people understand this is what the government is doing, this is how we measure it, this is the input, this is the output, these are the assets we have representing the taxes we have charged and the debt we have accumulated and the government is solvent and it is working, it is functioning. All that requires a lot of imaginative attention and really high-level, consistent, disciplined application here, and bringing in people like yourselves, Mr. Barram, Mr. Bloom, Mr. McShan, and having the oversight and perspective of Mr. DeGeorge is critically important to it.

The one thing we worry about is what I expressed to Mr. Barram the other day, that in the frustration of getting this done, in creating new systems and better ways of seeing the Federal Government, you kind of lose your zeal for it and decide I am here for the short term and I am going to do the things that I set out to do, maybe government sponsorship of high-tech research, some NOAA projects, or some other particular project. I will leave to somebody else the hard task, the tedious task of getting this systems work done.

So I just want to end on the note of we wish you well and keep the faith. Keep at it, because this is critically important. It is not terribly glamorous, but it is extremely important. We hope you keep your hand to the plow, to use a South Carolina expression.

Mr. BARRAM. Well, let me just tell you thank you. You have a very balanced but tenacious look at this, and we appreciate that. We know we have somebody to talk to about that. Thank you.

Mr. SPRATT. Certainly. Mr. Cox.

Mr. COX. Mr. Chairman, I will just wrap up without any further questions by covering the points that I think we have already discussed, that we ought to consider seriously comments that I note

we will hear now from GAO in their testimony about the role of the CFO and the other functions that might serve as a distraction in carrying out that chief mission for that role. I do want to encourage you to consider that restructuring as you leave here.

Second, I note that GAO is going to tell us that fundamental recordkeeping is not occurring at Commerce, that general ledgers aren't being reconciled with subsidiary ledgers. The CAMS response to this is inappropriate because CAMS has all of the earmarks of a government program. It has got an acronym. You know, it is the "Commerce Administrative Management System." It has been planned for 3 years. It is going to be put into a pilot program next year. In 1998, 2 years into the term of whomever is going to be President next, it might be implemented throughout Commerce. That is not what we need.

What we need is a pencil and an eraser and we need somebody to do the real work. We need to get honest data. That is why GAO is recommending that we maintain parallel operations in those bureaus that are going to have the pilot program, while CAMS is being implemented.

Implementing a new system is itself a challenge. It is a new challenge that makes more complex the challenge we are already facing and that is data integrity. We have got to have data integrity before we implement CAMS at any locations, says GAO. I agree with that. I think that is what Mr. DeGeorge is telling us about Census' problems. They are going to be distracted by so many other things simultaneously that this may ensure that nothing works.

I am all for computers. I use them a lot myself. I wouldn't be surprised if we couldn't do a bare bones job of this by going out and buying "Quickbooks" and putting real numbers in it.

Now that is not very fancy, but if somebody did the real work, day to day, of keeping it up and customized it to Commerce's needs, it would produce some real numbers, which we don't have right now. So I encourage you to think about these things so that as a result we don't have to wait until 1998, we don't have to wait until next year, so that you can come back to us perhaps later this year and say we have decided that we can get real financial statements out of Commerce before Bill Clinton leaves the White House.

Thanks very much.

Mr. SPRATT. You were vague about that date, Mr. Cox, so they may have longer than you think to implement. I am not going to give him an opportunity to rejoin that.

Mr. COX. At least I said Mr. Clinton. That will limit it to 8 years.

Mr. SPRATT. Mr. Barram, Mr. Bloom, Mr. McShan, Mr. DeGeorge, we appreciate your testimony this morning. We have learned from it, and we encourage you to keep in hot pursuit of this very important project. Thank you for coming. Thank you for your time this morning. Thank you for answering our questions. We have some more for the record, as I said, which we will be submitting.

[The questions and responses are in the appendix.]

Mr. SPRATT. Our next panel is the General Accounting Office.

Mr. Holloway, you have a statement from the General Accounting Office on the status of the CFO Act implementation at the Department of Commerce. And we have that full statement, which we

will make part of the record so that you can summarize any part of it as you wish.

Before you proceed, you may wish to introduce the two people who are accompanying you.

STATEMENT OF GREGORY M. HOLLOWAY, DIRECTOR, CIVIL AUDITS, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY DEBORAH TAYLOR AND VALERIE MELVIN

Mr. HOLLOWAY. I would be glad to. We are pleased to be here this morning. It has always been a pleasure coming before you, Mr. Chairman, and Mr. Cox. I think this is about the fourth or fifth time, but the first time as the witness, and hopefully you will find our responses to be useful in your pursuit of oversight.

For the sake of timing, I am going to try to be brief and just summarize what I have in the statement itself to allow for your questions, and opportunities to respond to them.

I have with me today Deborah Taylor, who is a senior manager in our Accounting and Information Management Division. She is from the accounting side. And also I have Valerie Melvin, from our information management side, so I have accounting and information systems people with me who I think will be able to provide additional answers to you.

Let me summarize my statement, but I guess I want to first throw out a thought, because all kinds of things ran through my mind as I listened to the earlier questioning of the panel of Commerce officials.

I am mindful first of an example I heard when I lived in Oklahoma before I moved here to Washington, and there was a guy that built a racetrack there by the name of DeBartolo, who is the father of the guy that owns the San Francisco 49'ers. It was interesting because I became good friends with the guy who was the chief financial officer for him for that racetrack. He shared the story with me how they were talking one day and he made the observation, this is Mr. DeBartolo talking to him, he said, you know, how much did it cost us to build that racetrack there in Oklahoma City? And he pondered for a minute, and very quickly said $85 million. And then Mr. DeBartolo responded, you know, it doesn't sound like very much to say $85 million, but try counting it.

I use that analogy because I think it is very apropos in this situation in that I think all of the concerns you raised are more than appropriate. And what it speaks to is the need to really have a two-pronged approach, one that allows you to deal with the immediate, and another that allows you to deal with the long term, but to recognize that there are no quick fixes, and that it is going to take a lot of dedicated effort up front to do the kinds of things that you alluded to in terms of correcting the existing situation as you proceed out into making the long-term solutions.

I want to focus my observations on three issues. One is CFO structure and training; two is the financial systems arena at Commerce; and three is the concept of agencywide audits, because I think it is a very important concept that I think merits a great deal of consideration. In that regard, I will start with CFO structure and training.

In the Department of Commerce, and I caveat all of this with the recognition that as you alluded to, Mr. Chairman, that this was a very brief preliminary review and much of our review centered around reviewing existing documents that Commerce themselves as well as the IG had already put out on the public record, as well as GAO, along with interviews and really drawing from our vast experience with doing some of these audits.

Deborah Taylor, on my left, participated at different levels in both the IRS and Customs audits, and I think there were a lot of lessons learned through those audits that are applicable with some of the things that Commerce is experiencing.

But in the area of CFO structure and training, I guess to get to the heart of it, basically there are two issues. One is the executive agency side and the other is the IG capacity to do the audits. The executive agency side is to prepare the financial statements. It is our judgment in this preliminary review—and I knew of Mr. Bloom even before he came into government; he was formerly with the Office of Thrift Supervision for a stretch and had extensive financial management experience. I think in Clyde McShan and Mr. Barram, they clearly have the kind of CFO leadership that the act intended to have in these agencies.

But along with that, I think it is crucial to recognize the need to have a mirrored kind of a structure in the underlying bureaus, the need to have that same kind of CFO presence that reports directly to the head of the bureau, that deals with the day-to-day financial management issues, especially in the larger bureaus.

I think that as it relates to Mr. Bloom's role as the Assistant Secretary, we have been on record for years expressing our concern for that and the opportunities that it creates to distract from the very needful energies being used in fixing the financial problems that exist in most of the government's agencies.

Having said that, I think one of the things where consideration needs to be given all too often is presented as an all or nothing kind of a proposition, and I don't think it has to be that. I don't think it has to be either you have all of those responsibilities or none of those responsibilities.

I think what the CFO Act talks about is something in between there. I think there are certain human resource issues that you ought to have oversight over and the ability to affect, like the financial training of your financial managers, like the hiring of those financial managers. I think there are procurement aspects that you ought to have control over, like the accounting for them and how that is handled.

So when you get into information management, I think clearly when you look at the history of the Department of Commerce, like most major bureaus, you always have major systems projects going on. And I think there needs to be some consideration to having a dedicated person on a level comparable to Mr. Bloom to oversee those kind of things and work with him. But I think the proper mix is to ensure that Mr. Bloom, in his capacity as CFO, has the authority and the breadth of responsibility to affect those things.

I think his concerns merit some consideration in the sense that oftentimes unless you are perceived to have the level of authority and influence to make a decision, people don't respond. So I think

whatever that structure might be as to who has the ultimate responsibility, I think first needs to be driven by what is required in terms of the severity of the problems that need to be fixed, along with making sure that the CFO has the right breadth of authority.

The second area I want to briefly touch on is financial management systems. I think both the agency and the IG have more than spoken to the obvious problems that exist at the Department of Commerce so I won't belabor that. What I will make are two observations. One, basically what you get from all of this which we see across government is that the fundamental blocking and tackling is not occurring. And I think it is crucial to note that, because while systems do fix some things, they do not fix everything.

I think the way that I would simply state it, and I hate to oversimplify something that is very complex, is that what systems will do is they will allow you to process things faster, more efficiently, and reduce the opportunities for errors. Systems will not reconcile balances to Treasury accounts. I mean, there is a certain degree of human intervention that is going to have to occur.

My best example of that is what we found at IRS. In the first year of our audit at IRS, we were not able to audit over 50 percent of their appropriated moneys because they could not reconcile their detailed records to their general ledger record to provide reliable detail to support the numbers that they had. As a result of implementing a new financial management system or a general ledger core system, they were able to do that. The difference was, that because the systems better interfaced, the detailed amounts equalled the summary amounts. However, whether the integrity of the detailed data was accurate was another discussion, but at least they knew what made up the detailed number because the two systems interfaced, which reduced opportunity for errors to occur.

And it also processed the data faster, which allowed them to close their books faster. But it does not take away the need to have that level of manual intervention to ensure that things that should equal each other do, and then the proper pursuit of those things to resolve them when there are differences.

Systems won't fix those kind of things. And just because things agree doesn't mean they are right. I think we have to be mindful of that. So I think there are some practices that you have to make sure get altered and addressed, along with making the systems changes.

My last and favorite analogy about systems is the fact that they are old. And there is a real significance to them being old. It reminds me of the first car I owned, if I could use it as an example, because I think it is a good illustration of what many of the agencies are faced with.

The first car I owned when I was a freshman in college was a 1966 Delta 88, and I thought it was great. But if I was still trying to drive that car in 1994, I would have a variety of problems. One of the things that new cars do now is they make things easier to get to to fix them. There are parts readily available for new cars. I mean, can you imagine what it would be like to try to find a part to a 1966 Delta 88 in this day and time?

Those are the kinds of things that agencies are faced with when you have those old systems. Because maintaining them is difficult,

the utility of them is difficult, they are desperately inefficient. So there are a lot of problems that are created by that.

And as I listen to the discussion and the debate over the propriety of having the Census Bureau as a pilot, when I listen to all those arguments, what they say to me is, all the more, we need to make sure that CAMS gets implemented at Census. Because you really need to have a good financial management system to account for its activity, particularly when the appropriated moneys start going up.

Whether or not this is the right system, whether or not they will effectively get it implemented, only time will tell. And I think that we just have to look at it and see. At least from the preliminary review that we have done, it appears that they are doing all the right things. And, you know, again that is a process that has to be constantly monitored, constantly evolved.

But you cannot ignore your existing systems and you need to make sure that you get that pencil and eraser and do the day-to-day kinds of things that still need to be done, because at whatever point you implement that new system, you want to have data that has integrity. Otherwise it is still bad information in, bad information out, and you are really no better off than you were before, other than you can process it faster.

The last point I want to touch is agencywide audits. Someone asked the question, I think of Mr. Bloom earlier, about is that a useful exercise. I think the answer to that is absolutely yes. And I think time and time again it has been proven, and I think the CFO pilot audits have clearly demonstrated the benefits from doing that.

One of the obvious benefits is that it brings on an annual basis to the forefront a very good measure of how an agency is progressing on correcting their financial management problems. It would have been a lot different if we were standing here today talking about what kind of an opinion the Department received as a result of its audit versus internal control reviews that had been done, which certainly have merit and I think were a good thing to do. I think they have set the stage to allow the IG to move into an agencywide type of a framework.

Already the CFO Act requires almost 90 percent of the Department to be audited anyway. So, there are all kinds of things to be gained from doing an agencywide audit.

You have got the presence of the annual reporting accountability, both to the American public as well as to the Congress. It allows the Congress an overall avenue to assess the departmentwide management. And while Mr. Bloom was correct in saying there is a need to have bureau-by-bureau reporting, I think such reporting would get affected in agencywide reporting.

And I think the most important point was the one that Mr. Barram made which was the need to manage risk and to look at it from a risk-oriented basis so that you focus on the more material aspects of the Department of Commerce, which you as a committee in an oversight capacity need to know most. And that is what an agencywide financial statement audit would do, it would put each of those in relative perspective to each other, while allowing you to look at each of them independently and collectively.

I think another issue as it relates to the IG in its capacity to audit such a statement goes to the heart of a couple of things. I think clearly there is a need for improving the number of people dedicated to it. And I am not sure what the right answer is. Our study was not done extensively enough to assess whether or not the IG has enough if redeployed to do it differently, or if in fact more resources are needed. But clearly more needs to be dedicated to the audit effort, whether you expand it to an agencywide or do what is required by the act.

So I guess in summation, I would close with making an observation of what I call one of my beliefs, which I think is true to this case in terms of my view preliminarily of what Commerce is trying to do. And it kind of goes like this: Excellence can be attained if you care more than others think is wise, risk more than others think is safe, dream more than others think is practical, expect more than others think is possible.

And I really believe until you have a vision to move things faster and to try to achieve things people don't think are possible, we will never turn financial management around in this Federal Government. And I think that they have an ambitious plan and while it is not as fast as any of us would want it to be, it is faster than most that I have seen. And I think that that is something to be commended, but I think all of the cautions that Mr. DeGeorge and others have raised, certainly need to be looked at.

The ones that we raised need to be looked at also, because there are some concerns in deploying new systems. However, I think that everything that is humanly possible, they seem to be trying to do in implementing their CAMS project, and I think we need to encourage it and faster implementation if it is possible.

I will close at that point to give way to any questions that you might have.

[The prepared statement of Mr. Holloway follows:]

United States General Accounting Office

GAO

Testimony

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Committee on Government Operations
House of Representatives

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FINANCIAL MANAGEMENT

Status of CFO Act Implementation at the Department of Commerce

Statement of Gregory M. Holloway
Director, Civil Audits
Accounting and Information Management Division

GAO/T-AIMD-94-150

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the results of our preliminary review of financial management at the Department of Commerce and its efforts to implement the Chief Financial Officers (CFO) Act of 1990. Our review was very limited in scope; however, as you requested, we plan to do additional work at Commerce.

We found that Commerce has forthrightly acknowledged serious problems with its financial management systems and related internal controls and has placed strong leadership in key financial management positions. These individuals have demonstrated commitment to the CFO Act and have efforts under way to fix many of Commerce's long-standing problems. While implementing its improvement initiatives will be a long-term endeavor, Commerce should begin considering actions to (1) enhance the CFO structure, (2) ensure that financial management staff are adequately trained, and (3) move toward an agencywide financial statement audit.

The five areas of CFO implementation which I will discuss today are

-- CFO qualifications,

-- CFO structure,

-- training of financial management staff,

-- financial management systems, and

-- audited financial statements.

For each area, I will discuss the act's requirements, describe Commerce's efforts to address those requirements, and provide our preliminary observations about those efforts.

CFO QUALIFICATIONS

A key element of the CFO Act is the requirement to have a qualified CFO and Deputy CFO who can provide strong financial management leadership throughout the agency. The act stipulated that individuals in these positions are to be responsible for oversight of financial management activities relating to agency programs and operations and are to report directly to the agency head on such matters. The CFO Act envisioned this requirement as a foundation for improved financial management in the federal government.

Accordingly, the act established specific qualifications for the CFO and Deputy CFO. The act required that the CFO "possess demonstrated ability in general management of, and knowledge of, and extensive practical experience in financial management practices in large governmental or business entities." The act's requirements for the Deputy CFO were even more specific. This individual was to have "demonstrated ability and experience in accounting, budget execution, financial and management analysis, and systems development, and not less than six years practical experience in financial management at large government entities."

Currently, Commerce has strong leadership in these key positions. These individuals have extensive financial management backgrounds, have demonstrated a commitment to the objectives of the CFO Act, and have developed plans for implementing many of its requirements.

CFO STRUCTURE

Since Commerce now has sound leadership in key financial management positions, the next step it should take is fortifying the CFO structure. This involves ensuring that the CFO's and Deputy CFO's responsibilities correspond to those listed in the act and strengthening CFO Act implementation at the bureau level.

CFO Responsibilities

The act envisioned that the CFO and Deputy CFO would have sufficient responsibility and authority to influence and direct financial management decisions throughout the department. Specifically, the responsibilities of the CFO and Deputy CFO were to include

-- overseeing all financial management activities relating to the programs and operations of the agency;

-- developing and maintaining an integrated agency accounting and financial management system, including financial reporting and internal controls;

-- directing, managing, and providing policy guidance and oversight of agency financial management personnel activities and operations; and

-- monitoring the financial execution of the budget and preparing timely performance reports.

Commerce's CFO and Deputy CFO perform roles and functions beyond those envisioned by the act. As a result, they have many responsibilities that are marginally related or totally unrelated to financial management. For example, they are responsible for Commerce's procurement and personnel functions. These additional responsibilities have the potential to distract the CFO from concentrating on financial management issues throughout the department.

In our December 1992 transition series report,[1] we raised concerns that for a number of agencies, such as the situation at Commerce,

[1]Financial Management Issues (GAO/OCG-93-4TR, December 1992)

the CFO designation was added to the position of assistant secretary for management or administration--positions that have very broad responsibilities. This is basically the way financial management responsibilities were structured before the CFO Act, and that approach did not work. Its continuing use, in cases in which the CFO has a large number of responsibilities beyond areas such as budgeting and financial management, could dilute the CFO's role and thereby not foster the needed urgency and undivided attention so vital to the success of this position. Commerce, which has provided broad responsibilities to its CFO, will have to ensure that the proper attention is placed on CFO matters and, if not, consider appropriate changes.

Bureau CFO Structure

The CFO Act required a CFO and Deputy CFO position at the department level but did not require similar positions at the bureau level. However, the Office of Management and Budget's (OMB's) guidance on CFO organization plans[2] recommended that the relationship between the CFO and component financial management activities be reenforced. This could be done through mechanisms such as CFO councils or CFO positions within the bureaus. It is especially important since the CFO Act makes clear that the CFO is responsible for overseeing all financial management activities relating to the programs and operations of the agency.

Commerce is a large, diverse agency. This diversity is reflected in its 14 bureaus, which are responsible for various missions--such as fostering technology, stimulating and regulating international trade, promoting commerce, analyzing social and economic activity, and studying the environment and natural resources. Bureau operations vary in size and complexity. The largest has a fiscal

[2]Guidance for Preparing Organization Plans Required by the Chief Financial Officers Act of 1990, M-91-07, February 27, 1991.

year 1994 budget of $2.1 billion, and the smallest has a budget of $6 million for the same period. Five of the largest bureaus comprise approximately 90 percent of Commerce's $3.8 billion fiscal year 1994 budget. Many of Commerce's bureaus are comparable in size and operation to large companies in the private sector, and most have reported numerous problems with their financial management systems and related internal controls.

The bureaus' top financial managers generally do not have financial management qualifications or responsibilities comparable to those of the CFO and Deputy CFO. The Commerce Inspector General's (IG) September 1993 semiannual report[3] discussed the qualifications of these managers, stating, "The long-term effects of Commerce's outdated financial systems was compounded by the critical shortage of qualified financial managers and accountants."

In addition, the bureaus' top financial managers have varying levels of responsibility that, in some cases, do not include all financial management activities. For example, financial management issues at the Economic Development Administration are divided between two different deputy assistant secretaries who have various other responsibilities and neither reports to the CFO. This fragmentation could diminish the CFO's ability to oversee financial management issues throughout the department. Furthermore, according to the IG's most recent semiannual report,[4] some financial managers were "subordinate" to administrative directors responsible for issues unrelated to financial management. The IG stated that this resulted in a "general de-emphasis of the role, importance, and organizational standing of the financial management function."

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[3]Semiannual Report to the Congress, September 30, 1993.

[4]Semiannual Report to the Congress, March 31, 1994.

Strong financial management leadership, strategically positioned throughout each of these bureaus, would help Commerce place an appropriate emphasis on financial management and carry out the goals and objectives of the CFO Act. For example, our financial statement audits of IRS and Customs have shown that it is extremely beneficial, particularly for large bureaus, to have a CFO at the bureau level. Therefore, we believe Commerce should consider establishing a CFO position within each of its bureaus. This person should (1) possess financial management qualifications and responsibilities similar to those stated in the act for the department CFO, (2) report directly to the bureau chief, and (3) function as the key liaison with the Commerce CFO.

TRAINING OF FINANCIAL MANAGEMENT STAFF

The CFO Act requires the CFO to ensure that financial management staff are adequately trained to carry out agency financial management functions. The need for qualified financial management personnel has been recognized by OMB and the Congress, and we have reported that well-qualified financial management personnel are critical to carrying out the act's requirements. In our transition series report, we called on CFOs to address immediately the serious problem of attracting and retaining well-qualified financial management personnel. We said that if financial management staffing problems, which are prevalent across government, are not dealt with effectively, progress in all areas will languish. As stated previously, Commerce's OIG reported serious deficiencies with the department's financial management staff capabilities.

To strengthen staff capabilities, and thereby better enable the department to implement the act, the Deputy CFO issued a directive requiring departmentwide training for financial management staff. This directive required finance directors to develop individual development plans for all financial management staff and ensure that staff received at least 40 hours of training per year tailored

to their development needs. However, since budgetary resources were not allocated for this level of training, some bureaus resisted the directive. Consequently, Commerce has reported that training has been provided based on availability of funds and workload demands, not on an assessment of training needs. Commerce is in the process of developing a training plan for the department.

Investments must be made in training to ensure that financial management personnel increase their professional skills to keep pace with emerging technology and developments in financial management. Given the limited opportunities to increase staffing, training and other forms of continuing professional development for existing staff present the most concrete opportunities for Commerce to enhance staff capabilities. It is important that Commerce establish training requirements for its financial management staff and monitor adherence to the requirements to ensure that staff are receiving this training.

We support the CFO's original requirement for 40 hours of training. In our transition series report, we called on the CFOs to place greater priority on training efforts and suggested that financial management personnel be required to participate in a minimum amount of continuing professional education (CPE). For example, government auditors are required to attain 80 hours of CPE every 2 years, and this requirement has helped ensure audit quality and professionalism.

FINANCIAL MANAGEMENT SYSTEMS

Commerce officials have acknowledged[5] that the department's financial management systems are in major disrepair; and the systems are on OMB's list of high-risk management areas.

[5]Chief Financial Officer Five Year Financial Management Plan (1993 - 1997).

Commerce's Office of Inspector General (OIG) confirmed[6] that conclusion and stated that fundamental recordkeeping was not occurring at Commerce. To address these problems, Commerce is beginning to develop and implement a complete overhaul of its financial management systems. Because of the difficulty and complexity of this undertaking and Commerce's previous difficulties with systems improvement initiatives, proper oversight and management will be critical to the success of this effort. Adopting modern and innovative management practices used successfully by other organizations could help Commerce to achieve its goals.

Commerce officials described problems with the department's financial management systems as follows:

> "The department currently uses eight different primary financial systems. In most cases these evolved from accounting systems developed in the 1960s and 1970s without regard for the informational needs of program managers and executives and without the flexibility to respond to future information needs. Most are poorly documented and extremely difficult and costly to maintain; they are labor intensive, fragmented, inflexible, outdated, and have not kept pace with changing requirements and technology. Audit surveys and reports by the department's OIG and vulnerability assessments by the bureaus confirm that we have serious problems with the reliability, efficiency, and internal controls of our present financial systems. As a result, our overall system has been placed on OMB's

[6]Chief Financial Officer Annual Report, 1993.

Governmentwide list of high risk management areas."

The Commerce OIG, in confirming the severity of the financial management problems, identified the following internal control weaknesses at most or all bureaus.

-- Management exercises inadequate oversight and supervision of financial and accounting activities.

-- Financial management staff are not familiar with accounting and financial reporting requirements.

-- Financial reports are not analyzed and reviewed.

-- General ledgers are not reconciled with subsidiary ledgers, and adjustments are not adequately documented.

-- Supporting documentation for transactions is not maintained.

-- Property records are incomplete or erroneous.

-- Financial, budgetary, and program management do not coordinate performance information they develop and present in annual financial statements.

To address its financial management problems, Commerce is developing a departmentwide comprehensive accounting system. Commerce expects that this project, known as the Commerce Administrative Management System (CAMS), will bring its financial management systems into full compliance with the requirements of the CFO Act and the Joint Financial Management Improvement Program guidelines for core accounting systems.

Commerce has spent the last 3 years planning this project and expects to begin piloting the core system at three of its bureaus in fiscal year 1995 and to complete implementation by fiscal year 1998. CAMS is to consist of a core financial system, which is currently in the bid process, and seven subsystems, which are in various stages of design.

Because the scope of our work to date was limited, we did not evaluate the design of CAMS. As part of our ongoing, more detailed review of the Department of Commerce, we will focus on the implementation of CAMS and its ability to address the problems that continue to plague the department's financial management operations.

Although we support Commerce's effort to develop this integrated and comprehensive system and agree that a new system is critically needed, Commerce, similar to other federal agencies, has historically had problems with systems initiatives. During the past year, we have reported on problems with other Commerce systems improvement initiatives at the Patent and Trademark Office and the National Oceanic and Atmospheric Administration (NOAA).[7] For example, our work on NOAA's National Weather Service modernization effort identified weaknesses in the management and oversight of this initiative including the need for a central manager or chief architect to guide it. The department is taking steps to implement our recommendations.

In view of Commerce's history of systems improvement problems--as well as the size, complexity, and rapid implementation schedule of the project--proper management will be essential to CAMS' success.

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[7]Patent and Trademark Office: Key Processes For Managing Automated Patent System Development Are Weak (GAO/AIMD-93-15, September 30, 1993), and Weather Forecasting: Systems Architecture Needed For National Weather Service Modernization (GAO/AIMD-94-28, March 11, 1994).

Certain management challenges will need to be monitored or addressed. They include the following:

-- ensuring that the internal control structure has been properly evaluated and that identified weaknesses have been fixed,

-- ensuring that data integrity has been established before implementing CAMS at any bureau,

-- monitoring and evaluating the initial pilots to ensure that CAMS' objectives are being met,

-- continuing to commit the necessary levels of resources or providing funding to obtain contractor assistance to ensure that CAMS stays on schedule,

-- close monitoring of concurrent projects to minimize risk of costly modifications and poor interface, and

-- maintaining parallel operations during implementation at all three pilot bureaus to ensure CAMS' reliability.

To address some of these challenges, Commerce may wish to consider adopting the practices leading private and public organizations have used successfully to manage their information resources. We reported on these practices in May 1994.[8] Despite spending more than $200 billion governmentwide on information management and systems over the past 12 years, the federal government has little evidence of meaningful results. We found, however, that solutions to seemingly intractable, complex information management problems do exist. Our report focuses on what agencies can do now to

[8]Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology--Learning From Leading Organizations (GAO/AIMD-94-115, May 1994).

improve performance by using new approaches to managing information and financial related technologies. Our report summarizes 11 fundamental practices that led to performance improvements. They fall under three key functions: (1) deciding to work differently, (2) directing resources toward high-value uses, and (3) supporting improvements with the right skills, roles, and responsibilities.

AUDITED FINANCIAL STATEMENTS

The CFO Act requires that each department's OIG perform financial statement audits of their respective revolving funds, trust funds, and commercial activities. As a result, almost 90 percent of the Department of Commerce's total budget dollars were subject to audit. The following 13 funds and activities are to be audited by the Commerce IG, in accordance with the act's provisions:

-- Economic Development Administration Revolving Fund,

-- Bureau of the Census,

-- Economics and Statistics Administration,

-- International Trade Administration,

-- NOAA-Coastal Zone Management Fund,

-- NOAA-Damage Assessment and Restoration Revolving Fund,

-- NOAA Fishing Vessel Obligation Guarantee Program,

-- Patent and Trademark Office,

-- National Institute of Standards and Technology,

-- National Technical Information Service (NTIS),

-- National Telecommunications and Information Administration,

-- General Administration-Working Capital Fund, and

-- General Administration-Gifts and Bequests.

As authorized by the act, OMB granted the Commerce OIG a waiver for all fiscal year 1991 audits, except for the audit of NTIS which has been contracted out to a public accounting firm since 1990. Beginning in fiscal year 1992, the Commerce IG adopted an incremental audit approach which focused first on what the IG called a "Financial Statements Preparation and Audit Survey" (FSPAS).

The FSPAS is a formal program to identify major problems in Commerce's internal control structure which must be corrected before a successful audit can be performed. The objective is to incrementally progress until full scope financial statement audits are conducted for fiscal year 1995. For fiscal years 1992 to 1994, the OIG plan was to perform limited scope audit procedures to assess the progress of corrective actions and facilitate a balance sheet audit in the following year. The only full scope audit performed in fiscal year 1993 was for NTIS and was contracted out. Many of the more limited scope audits planned for fiscal year 1993 either had not begun or were still under way. Based on current progress, the planned full-scope audits for fiscal year 1994 may not be done on schedule.

As of June 1994, the OIG had 166 professional staff, 91 of which were assigned as auditors. Our preliminary review of the OIG staff backgrounds showed that 28 were certified public accountants, and an additional 40 had accounting or financial management related degrees. The number of professional staff assigned to financial statement audits required under the CFO Act was recently increased from 10 to 18, which is a positive step. The OIG, however, has

recognized the need for even greater resources to do this work. In its March 1994 semiannual report,[9] it stated, "To do a complete job, we would need to assign many more auditors to CFO Act work." The OIG projects that roughly 12 to 22 additional staff will be needed for the financial audits.

As the OIG plans ahead under its incremental audit approach toward full scope audits in fiscal year 1995, we believe the primary focus should be on performing an agencywide financial statement audit. This makes particular sense for Commerce since presently 90 percent of its total budget is subject to audited financial statements and given that pending legislation (H.R. 3400 and S. 2170) calls for agencywide financial audits for all CFO Act agencies.

We have testified on several occasions, most recently on June 21, 1994,[10] on the substantive benefits and progress that have been achieved from the CFO Act's program of pilot agencywide financial statement audits. The pilot audits have demonstrated their value in many important ways, including better highlighting agencies' true financial conditions. Audited financial statements have also been integral to identifying management inefficiencies and weaknesses and highlighting gaps in safeguarding the government's assets and possible illegal acts. Additionally, the CFO Act financial audits have identified actual and potential savings of hundreds of millions of dollars. We are confident that the Department of Commerce would also benefit from such a thorough review.

Benefits such as these strongly support our belief that the act's requirement for agencywide audited financial statements should be expanded to all 23 CFO Act agencies. We are encouraged by the

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[10]Financial Management: CFO Act Is Achieving Meaningful Progress (GAO/T-AIMD-94-149, June 21, 1994).

House's passage of the provisions of H.R. 3400, the Government Reform and Savings Act of 1993, which included the requirement for agencywide audited financial statements for the government's 23 CFO Act agencies. The Senate Committee on Governmental Affairs earlier this month reported a financial management reform bill, S. 2170, that would require CFO Act agencies to prepare agencywide audited financial statements. Our support for this legislation is based on the solid record of the CFO Act's pilots, which have been highly successful. The Director of OMB agrees with this assessment and reported to the Congress last November that the pilot program has been successful.

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Mr. Chairman, this concludes my statement. We are at a critical juncture in our national government as we address the need for real management reform and the clear message from the American people that they want a smaller, more responsive government. I view the environment today as a tremendous opportunity for change and look forward to working with the Subcommittee as it strives for a better managed government. I will be glad to answer any questions that you or other members of the Subcommittee may have at this time.

(901659)

Mr. SPRATT. Mr. Holloway, I think you were here earlier this morning and you heard the discussion about the objectives of this financial management plan. It is not, as we said, just green-eyeshade accounting. It is something much broader and more sophisticated than that. And listening to some of the objectives that we discussed with the previous panel, programmatic budgeting, variance analysis, management information systems, measurement systems for human performance and services productivity, all of these management functions, are you satisfied that CAMS has the potential for providing this, serving these different objectives in the Commerce Department?

Mr. HOLLOWAY. My sense is that CAMS is a great starting point, but I think that what you are really talking about, and I believe it was Mr. Bloom that alluded to it, you are talking about something much bigger than a core general ledger accounting system.

With the recent passage of the Government Performance and Results Act and the other kinds of things, I really am hopeful that we as a government are moving more to performance management, which moves us from the traditional budget discussions to making actual performance discussions as crucial as the budget discussions. And I think with things like that act, it is going to require and demand the capability to provide information at a level that we haven't experienced in government to date. And I think CAMS certainly provides the foundation, as it is being proposed, but I think there are going to be other things that are going to have to be done to refine that to meet the real information needs over time.

Mr. SPRATT. What is the problem of implementing it? Is it people? Is it resources? What is it? What are the principal hurdles to getting this system implemented?

The date we were given this morning for full-up implementation is 1998. That is a long way off. Why does it take so long?

Mr. HOLLOWAY. My sense is, from meeting with the agency officials and the inspector general, is there is a couple of things in play. One is the procurement rules. Like Mr. Barram, I had experience in the private sector before I came into government, and the decisionmaking process in the Federal Government is very different than what it is in the private sector. And I think that plays a part in it in terms of the time it takes to actually get it approved to go forward.

I think people are a very big problem, marshalling all of the needed resources both to plan it and to implement it.

Mr. SPRATT. Now, you have met some of these people, you have worked on the audit and reconstruction of these records in the Commerce Department. The Commerce Department identified 917 employees whom they could call financial management employees. What level of skills do these employees have and if they deserve that moniker, financial management type, why is it that they can't readily adapt themselves to a new system? Once they learn data base software, why can't they just take to it in a matter of a month or two?

Mr. HOLLOWAY. I can't speak to the 917 and I am not sure who all—I will let Deborah Taylor, she did a few reviews on the key people in the different bureaus, talk a little bit about the backgrounds that she found, because I think it all starts with the lead-

ership. And while you may have those numbers, and I think those are plenty if all you looked at were the numbers, I think the mix is probably more crucial than the number. But I will let Deborah speak a little to the backgrounds that she found in these key financial managers.

Ms. TAYLOR. Mr. Chairman, as Mr. Holloway said, we looked mostly at the top financial managers. Their backgrounds stemmed mostly from budget formulation, to program management, to some financial background. Financial reporting was not something that was extensively found in their backgrounds. If that, as Greg said, are the top managers, we can only expect that the lower people are not getting the adequate supervision to be able to carry out their jobs as financial management staff. And that is something we will look at in the future.

Mr. SPRATT. I may have misunderstood. You are saying that a lot of these people are basically bookkeeping people, voucher auditors and accountants, as opposed to financial management types?

Ms. TAYLOR. I would assume so, of that 917. I don't know what that makes up and I don't know where Commerce got that number, but it appears that it is all their accountants, it is everybody.

Mr. SPRATT. Your impression is, then, if these are going to be the people who run a system that does programmatic budgeting and variance analysis and measurement of performance results, then they need a lot of training before they are up to the task?

Ms. TAYLOR. Absolutely.

Mr. HOLLOWAY. I think you have training, but I think you also have a need to get the right mix of people. Because different levels in managing a financial management system are required.

I think certainly there is a place for a lot of what I would refer to as the clerical functions, the basic day-to-day data entry and those types of things. But you also need, when you get into the things you are talking about, people with financial analysis expertise that cannot only produce the numbers, but analyze the numbers to talk about what they mean in terms of relationship to the budget or to performance of the agency. And that is a very different skill than just someone with the skill level to input information into a computer. Or for that matter even to reconcile a statement.

Mr. SPRATT. Let me let some of the other members ask some questions now. I have some more questions, but let me share some time with first Mr. Horn.

Mr. HORN. Thank you, Mr. Chairman.

Let me pursue one area, Mr. Holloway. In your review of what they are doing in Commerce, did you have an opportunity to look at the role of the Deputy Director of OMB for Management and the relationship to the various CFO projects?

Mr. HOLLOWAY. Not as part of this review, no, sir.

Mr. HORN. OK. Have you any knowledge from other experiences as an official of GAO in looking at the role of the Office of Management and Budget in encouraging and furthering compliance with the CFO Act?

Mr. HOLLOWAY. I am going to read into your question and say what you are really asking about is OMB 2000 and what they are proposing to do as part of their reorganization.

Mr. HORN. Actually, let me tell you what I am really after. You might be right. I have had a long standing, like 30, 40-year interest, in the organization of the Office of Management and Budget. And one of the undermanned functions since the end of the Roosevelt administration, when it was actively manned under Roosevelt and Truman, by Don Stone, who is still alive in his nineties and would be a great witness if we ever go into the history of the OMB, and the BOB before it, but it seems to be a very weak function compared to what the Nixon administration anticipated when they added management to the office of the so-called Bureau of the Budget. And I was just curious where the leadership's role is coming in an overburdened government where the crisis of the day pushes out long-term planning. And that role ought to be able to convene CFO's, convene the assistant secretaries for management, which go back to the Hoover Commission and all that, and try to get a little forward motion, plus have an influence on the budget examiners to provide and recommend the necessary resources to get the job done. So that is why I am curious, what GAO's perspective is of that.

Mr. HOLLOWAY. Congressman Horn, I would say with absolute certainty, we share your concern about the management function at OMB.

As to the implications of the recent reorganization and how that will affect the management aspect of that, I guess only time will for certain tell. I mean, certainly the proposed arrangement could work. Whether or not it will work, only time will tell. We certainly share that concern over their capacity to provide the kind of leadership that is going to be called for, but I think our view is to wait and see.

Mr. HORN. OK. Thank you.

Mr. SPRATT. Thank you, Mr. Horn. Mr. Shays.

Mr. SHAYS. Thank you, Mr. Chairman. I am sorry, I was back in my district this morning and have just been reading through the extensive notes that one of my assistants took.

One of my big concerns with the Commerce Department is I feel there are tremendous layers of decisionmaking that are inherent in all the government that we have in Washington. How do you focus in on that, if you do at all?

Mr. HOLLOWAY. Well, we did in a very small way, and I am going to let Ms. Taylor again respond a little to some of the structures that we saw in the underlying bureaus which presented some concern in terms of the placement of financial managers in those bureaus and the need to have those positions elevated to have the kind of impact we would be hopeful that they could in a financial management setting.

Mr. SHAYS. I guess I am really asking something a little different. If you don't have a sense of this, then that is—we will forget the question. My sense is that throughout government we have more than two or three or four people involved in the decisionmaking. Sometimes it has layers reaching up to 10. In your work, do you encounter this? Do you see this at the Commerce Department? Is this something that I just read about that has no substance to it?

Mr. HOLLOWAY. I think there is a degree of layers in most government organizations. I don't think that is something just isolated to Commerce. But I think more and more, I see departments like Commerce——

Mr. SHAYS. I tell you the irony of it, though, is we constantly talk about wanting government to run more like a business, and this is not a criticism of the administration, because if the problem exists, it existed under 12 years of Republicans. But it just seemed to me what a golden opportunity to start with Commerce and have it be the one that would take the lead on this. And yet we find that maybe it is one of the most bureaucratic.

Mr. HOLLOWAY. Well, except that I think you are seeing some of that effected. I think you heard Mr. Barram refer several times even in his statement and in references to Mr. Bloom about the confidence that he has in Mr. Bloom and how he has delegated things to Mr. Bloom. And I think likewise Mr. Bloom as the other positions evolve is trying to do the same thing.

I think certainly your concern is valid. Not only in Commerce, but everywhere. But I think that there are—I see signs of changes in several of the bureaus that we have had opportunities to work in. And while certainly we are not where either of us would want to see the Federal Government in terms of a more flat structure to allow for quicker and more efficient decisions, I think there is an air of change.

Mr. SHAYS. Since I wasn't here in the first part of your testimony, if you answered this then I will just speak to my staff about it. But did you address specifically the need to, given the limited resources, rather than spreading resources and attempting to do all of Commerce, doing one Department at a time?

Mr. HOLLOWAY. Well, I think the right answer there is we are not as concerned with whether you do one or three, but that whichever you do, you do it right with the proper support. And from what we have seen to this point, and I want to underscore the preliminary nature of our review, it appears that Commerce is putting all of the right things in place in terms of resources and other things to support the implementation of the three.

Now that doesn't mean there aren't concerns. We certainly have concerns and we raised some of them in our testimony, and I think Congressman Cox referred to one, which is on the need to run parallel to some extent.

Mr. SHAYS. Have you answered the question why the Census Bureau?

Mr. HOLLOWAY. Why the Census Bureau? I think the agency would be best to answer that, but I guess my own response would be that the Census Bureau is probably a little different than most of the department's bureaus, in that its appropriated moneys are very volatile and they go way up and come way down. And I think what you see right now is a lull period. And what is a perceived window of opportunity to try to implement an effective financial management system that hopefully will be in place at the time that that rise in appropriations occurs.

And so I think there is some reasonable logic that would say that that is one that you would want to look at. But I don't want to discount the concerns. I think it needs to be done right. I think you

need to make sure that the data integrity is right. I think Census has had a history of financial management problems that need to be addressed. But I think certainly if you assume that all of those things get dealt with, and certainly I think the Department is well aware of them, that to go or not to go needs to be decided at that point.

Mr. SHAYS. Thank you. Thank you, Mr. Chairman.

Mr. SPRATT. Thank you, Mr. Shays. Mr. Cox.

Mr. COX. Thank you, Mr. Chairman, and Mr. Holloway. I appreciated your written testimony as well as your oral testimony. And I agree with all of it. And I think we need to keep the heat on.

But I would like you to take your time briefly to talk about what we do know about the financial statements, since you understand financial statements and you have been involved in Commerce's financial statements and that is what this is supposed to be all about. I really should have put these questions to the people from Commerce who were here whose agency it is who probably know best, but they are gone. And I would just like to go over with——

Mr. SPRATT. In the back of the room there. I think you——

Mr. HOLLOWAY. They haven't escaped yet.

Mr. COX. All right. I am not going to ask anything too difficult. Somebody presumably will know. The fiscal yearend 1993 statement that is included in this book has a whole lot of everything except numbers, I mean honestly, we have got a $4 billion operation that is distilled to two lines, cost of goods or services sold, and program, slash, operating expenses. And I can't for the life of me—there are no notes to go with it—figure out what this is all about. So I wonder what percentage of that total expense comprises, roughly speaking, personnel.

Mr. HOLLOWAY. Without having looked at it, I would have to presume that most of it does. When you consider that there are 36,000 employees and they have an appropriated budget of around $4 billion, I have got to believe that probably as much as 70 percent of that is likely to be personnel, personnel related.

Mr. COX. So it is fair to infer that a significant component of the accounting information that we are seeking, is payroll and benefits and retirement and other kinds of personnel accounting?

Mr. HOLLOWAY. Well, I am going to try to become state-of-the-art for a second in responding to you. Yes, it is accounting, but it also could be looked at as an investment in terms of whatever it is that the government is trying to achieve. Most of that comes through investment in people and the delivery of services. So that when you look at something like Commerce, I would hate to reduce it to the simplicity of just that it is people, but rather what the government collectively as a body has elected for that Department to do in the way of mission and other things. It is an investment in trying to pursue those goals.

Mr. COX. I certainly agree with that as well. What that entails, I suppose, is organizing and subdividing those personnel costs according to function.

Mr. HOLLOWAY. Absolutely.

Mr. COX. And trying to measure, if it is possible, the yield from that effort?

Mr. HOLLOWAY. Absolutely.

Mr. COX. The reason I ask the question is I think however different government might be from the rest of the world in terms of what it does and what it provides, the function we are describing here, maintaining accounting records and keeping financial statements, is one that is common to every organization that human beings construct for themselves. We don't, therefore, need to invent the software from scratch. We can probably borrow it from somewhere else. I wonder about CAMS in this respect. Why don't we use off-the-shelf software?

Mr. HOLLOWAY. I think Commerce did. The Department, as part of the CAMS project, did a study of various agencies' attempts at various software, and at least as it was explained to us, because we asked that question, was that it was found that in many cases either the software did not adequately provide the kind of information or usefulness that they had hoped for, as what this new system would propose.

I go back to my car analogy. I think it is the difference in saying you started with a 1966 Delta 88, do you want to buy a used 1984 model car or do you want to buy a 1994 Cadillac or Lexus or whatever your preference is? I think that is the difference of what you are talking about here, is the degree of how far into modern technology do you want to go. And I think in Commerce's case, they have elected to reach to the fullest extent of that.

Now, in terms of the feasibility of taking an off-the-shelf package and implementing it, I think that becomes a question of need. And that is partly driven by what you perceive to be the information that your customers want, like Congress, and the capacity of that kind of system to provide that in a timely manner.

Mr. COX. Your own testimony points out that despite spending more than $200 billion since 1982, the Federal Government has little evidence of any meaningful results from its spending on information management systems. I wonder whether this isn't why. If we bring in all the consultants and the beltway bandits and the computer vendors and they sell us all this fancy, expensive stuff, and they tell us that is the answer to your problems of not reconciling the general ledger with subsidiary ledgers, that is the answer to the problem of people not doing the work, I wonder whether we are not going to find that, yes, CAMS will take until 1998 to implement as Commerce proposes, and in the meantime, yes, we will be bereft of any useful accounting information.

Mr. HOLLOWAY. I think it is crucial, I think that is why we as GAO have always supported congressional oversight hearings. I think that is why an agencywide financial statement audit with a report is so crucial, is that it provides a mechanism on an annual basis to look at that progress and to make sure that it is progressing as proposed.

One of the things that I would allude to in response to your observation, we recently issued, and that is what this report is, a report on best practices of various entities in implementing systems. And it was an effort to try to identify what were some of the things that were used in government and the private sector that seemed to work well to ensure success in implementing systems, and then this was an effort to try to get past the history of government fail-

ing to say what are the things that we are not doing that we ought to be doing to do it right.

And I would ask Ms. Melvin if she could briefly elaborate on what some of those best practices are that it talks about.

Ms. MELVIN. With this particular guide, we have the best practices. It actually looks at starting from the very beginning in assessing what your needs are, as Mr. Holloway has already stated, and moving from that, involving all of your staff from the senior management level down to the line management level in terms of identifying those needs and then eliciting in terms of the information you want.

We have been talking today about the chief financial officer's position, one of the key things this guide lays out is input in terms of the senior officers. The chief financial officer is also the chief information officer, if you will, in terms of overseeing and monitoring information management from that standpoint.

What this guide attempts to do is lay out the importance of having, first of all, the senior management levels be the ones that are actually identifying the overall mission, and communicating with the line management in terms of what that should be, and then identifying what the resources were.

One of the critical components is in terms of inventorying what your resources are, your information management resources are, looking at them as investments, and then from that standpoint deciding what is critical and what is not critical. That would certainly be appropriate from the standpoint of the CAMS system, looking at what is necessary within a particular bureau and then deciding what is relevant and when.

Also key to that is responding to performance measures you want to have in place, to look at whether in fact what you are putting in place will achieve the objectives that you intend for it to achieve.

Mr. COX. All of that strikes me as consistent with using off-the-shelf software or custom-designed software. Most of what I am loosely referring to as off-the-shelf software is so customizable that it can produce reports as uniquely tailored to the particular business as one might reasonably require.

If we define the task as implementing CAMS, it is a lot easier to get to 1998 than if we define the task of complying with the CFO Act. But if the requirement is to comply with the CFO Act, then CAMS is clearly the wrong answer because it doesn't get us to that goal. It takes way too long. It doesn't give us in the near term the result we are seeking. I would ask whether this is the right tool.

This same issue has been raised by testimony that we will hear from the next panel, by the Financial Executive Institute, comprising thousands of people who do this in the real world across the country. They have recommended off-the-shelf software, and certainly as a parallel measure, while we are getting around to doing CAMS beyond the lifetime of presumably a lot of the people who care about what we are measuring, we should, I think, consider doing something near term.

Mr. HOLLOWAY. The only observation I would make, and I wholeheartedly agree with you that I think the principal objective should be compliance with the act, but even there I would hope we look at what the spirit and desired outcome of the act are as opposed

to just being able to say we technically comply. I think you alluded to that earlier.

What we really want is the outcome this act was intended to generate, which is responsible financial management that provides useful information. And I question whether that is achievable in the short term even through off-the-shelf software. I think some of your problems that exist in Commerce are greater than the software.

Mr. COX. Your testimony was very helpful in illuminating that. I think Mr. DeGeorge pointed out that we just don't have people who understand accounting in these jobs. We have got 900-some-odd people. I heard Commerce say we try and train them; if we were in a hurry, we would find and hire outside people who knew how to do it.

I realize this is not possible in the government. We cannot do that. We have to somehow train the existing employees. And that will take forever. And if we don't want to take forever, we hire more people and recruit folks who know how to do it and add them on top of the people we have already that can't do the job.

But one way or the other, we need to get accountants in there who know accounting to do the job that is required, because software can't operate itself.

Mr. HOLLOWAY. The one observation I would make is it doesn't have to take forever. And I would use our own division as an example.

When the CFO Act passed, our division in GAO, which is the Accounting and Information Management Division, at that time it was the Accounting and Financial Management Division, which was most of your green-eye-shade accountant types, probably 50 percent of our work was designed in what I would refer to as financial related or performance audits.

In the course of 2 to 3 years, we have completely restructured that division where better than 80 to 90 percent of our resources focus on financial statement audits and related things. And that was done over a 2 to 3 year period. We developed an extensive audit methodology. We created training courses not only for our own people but for the inspector general people to provide auditor training.

So I don't believe it has to take forever. I think you can turn it around. I think the tone starts at the top. My own adage is, if you really want to look at what is important to someone, just see where they spend their money. The kind of investment you make in things is evidence of how committed to them you are.

I think if training is really a priority, and if doing the financial statements audits are a priority, and if getting financial statements and correcting some of the problems are a priority, it will be indicative of where the resources are spent.

Mr. HORN. Will the gentleman yield for a comment?

It seems to me you have hit on a very important point. GAO has had the experience, they have implemented the act. Other agencies have implemented the act, some not very well. Where is this information being shared by GAO, OMB, with the operating agencies, with this government, so we don't have to reinvent the wheel in each particular situation?

Mr. HOLLOWAY. I think we are making extensive efforts to share information. One of our goals when the act passed was to train thousands upon thousands of inspector general staff, and others. We have worked closely with agency officials, most recently myself, with Customs and the Internal Revenue Service. We have done audits in Defense agencies. We have done audits at the Department of Education. And those audits have been more than just ticking and tying financial statement numbers. They have gotten into program evaluation in terms of the effectiveness of the programs, looking at how the agency measures performance and the usefulness of it, working hand in hand in the trenches with the respective inspectors general.

Mr. HORN. OK. Has OMB and GAO gone out and held specific workshops for people that are just now beginning to implement the act?

Mr. HOLLOWAY. Absolutely.

Mr. HORN. Is it GAO, OMB or both?

Mr. HOLLOWAY. I think it has been a little bit of both. OMB has certainly put out guidance, on form and content, audit procedures, that other people can go to. We, as I have indicated, have offered extensive training opportunities.

PCIE was formed, I believe, with the inspector generals, which was another avenue for training. There are concerted efforts out there to train people to do this kind of work.

Mr. HORN. Thank you.

Mr. COX. I just want to conclude by again drawing attention to that part of your testimony in which you said that in December 1992, GAO noted that a number of agencies, among them the Department of Commerce, had added the CFO designation to the position of Assistant Secretary for Management or Administration, and that that position had very broad responsibilities.

Quoting your testimony, "This is basically the way financial management responsibilities were structured before the CFO Act, and that approach did not work."

I hope that you will continue to provide that critique which comports with the critique of the agency's inspector general, comports with the critique of the Financial Executives Institute, and I think several members, if not all of them, of this committee.

It is vitally important that we have that focus at the top. As you say, certainly the CFO has some authority to hire people to do accounting, but that he not be burdened with the responsibility to do all of the other things that are involved in the broad roles assigned to the Assistant Secretary for Management.

Mr. HOLLOWAY. Absolutely.

Mr. SPRATT. Mr. Holloway, Ms. Taylor, Ms. Melvin, thank you very much for your testimony, but more than that, for the preparation you have brought to this whole enterprise. We will look forward to continuing to work with you on this matter.

Our final witness is Mr. Buel T. Adams, who is appearing on behalf of the Financial Executives Institute. Mr. Adams, thank you for taking your time in coming and sitting through the whole hearing.

Mr. ADAMS. It has been most enlightning. I appreciate the opportunity to be here.

Mr. SPRATT. We have your testimony already, and we will make it part of the record so that you can summarize it and proceed as you please. The floor is yours.

STATEMENT OF BUEL T. ADAMS, VICE PRESIDENT AND TREASURER OF CBI INDUSTRIES, INC., REPRESENTING THE FINANCIAL EXECUTIVES INSTITUTE

Mr. ADAMS. Thank you very much, Mr. Chairman. I am the vice president and treasurer of CBI Industries, in Oak Brook, IL. I am chairman of Financial Executives Institute's Committee on Government Liaison.

Financial Executives Institute is a professional association of 14,000 chief financial officers, treasurers, and controllers from some 8,000 corporations throughout the United States and Canada.

Mr. Chairman, we appreciate the opportunity to present the views of Financial Executives Institute before the subcommittee. We are always willing to provide our technical assistance to you, the ranking minority member, Congressman Cox and your respective staffs.

Since 1983, when the private sector survey on cost control reported widespread examples of waste, fraud, and abuse in the Federal Government, FEI has been committed to ensuring that these issues were systematically addressed by the Congress and the executive branch. As an organization that represents senior financial executives in the private sector, we vigorously support measures to address the widespread mismanagement practices that have persisted in the Federal Government for decades.

In 1993, for the first time, the Clinton administration publicly reported the status of the financial management in each of the 23 agencies covered by the CFO Act. In that report, OMB announced that only 2 of the 23 government agencies had financial records that were reliable for fiscal year 1992.

After reading OMB's report, our committee decided to review a number of these audited statements. One of the agencies' financial statements we reviewed was that of the Commerce Department.

During our review of the Commerce Department's financial statements, we noted that the inspector general and CFO had determined that the financial statements of 11 of the 12 Commerce Department agencies could not be audited because of the many deficiencies found in internal controls throughout the Department. The IG report stated that the financial systems at most agencies are "outdated, inefficient, and generally lack adequate internal accounting controls. The result is inaccurate and incomplete financial information that is of limited value."

Given these circumstances, it is difficult to fairly evaluate the financial condition of the Department. We did, however, review the 5-year financial management plan of the CFO of the Department and the latest semiannual report of the Department's inspector general to the Congress. Based on our limited knowledge of the internal financial structure of the Department, we believe that the following general observations are appropriate.

Our primary concern focuses on the need for strong leadership from the top levels of the Department in support of improved finan-

cial management. Without such a commitment, the necessary improvement simply won't take place.

In the latest IG Semiannual Report to the Congress, the inspector general stated that "except for budgetary matters, senior managers at most bureaus have shown limited interest in financial management issues."

This lack of leadership, the IG goes on to say, "has resulted not only in the poor condition of existing financial records and systems, but more significantly in a general deemphasis on the role and importance of the financial management function."

In compliance with the CFO Act before 1990, the Commerce Department created in 1991 the position of CFO and Assistant Secretary for Administration. In our review of the Five Year Financial Management Plan, we learned this position also has major responsibilities for the budget, information resource management, personnel management, civil rights, procurement, property, and financial assistance. It seems that the primary responsibilities for the position are largely administrative and not financial, and that the CFO responsibilities were merely tacked on to the already existing responsibilities of the Assistant Secretary for Administration.

It is our opinion that this was not what Congress envisioned when it passed the CFO Act. In light of the vast financial management problems plaguing the Commerce Department, we would recommend that the administrative responsibilities of the CFO be reassigned to an Assistant Secretary for Administration so that the CFO could concentrate on getting the Department's fiscal house in order.

Although the IG repeatedly found deficiencies in the bureaus' internal controls of such magnitude that it precluded the bureaus' financial statements from being audited, we were impressed with the IG's incremental audit approach that was developed to assist the Department in complying with the CFO Act audit requirements.

Under this plan, the IG will perform internal control surveys, which are more cost efficient than full-scale audits, to uncover major problems in the financial and accounting operations of the bureaus. These surveys will then be followed by more indepth audits. These are scheduled to be completed by fiscal year 1994 and by fiscal year 1995 at several larger bureaus.

While we endorse this approach to resolving the Department's internal controls problems, we question the length of time it will ultimately take for all of the bureaus to produce reliable financial information given that the CFO Act was enacted in 1990. We would rather see improvements be made at a faster pace, similar to the schedule of Commerce's National Technical Information Service, which has been statutorily required to provide audited financial statements since fiscal year 1989.

Although major internal controls weaknesses were discovered in NTIS's initial audit in fiscal year 1989, improvements were made in a short period of time and resulted in unqualified opinions being rendered in fiscal years 1991 and 1992. Given NTIS's experience, we would think that the other bureaus could achieve equal success in a similar timeframe.

To improve its overall financial management systems, the Department has devised a two-tier plan that addresses both its short and long-term financial management needs. We have talked a lot about CAMS this morning. It has been designed to replace and/or integrate existing financial and administrative management systems. However, CAMS will not be fully implemented until sometime in fiscal year 1998.

Until then, a shorter term initiative, Commerce Financial Reporting System, CFRS, will be put in place to implement the reporting requirements of the CFO Act.

Here again, we question the length of time required to develop a new financial management system. Off-the-shelf software and systems are currently being used by countless companies in the private sector and should be considered by the Commerce Department.

We would recommend that the Department accelerate its timetable for purchasing and implementing its new financial management system and prioritize its financial management needs in an effort to achieve 70 to 80 percent of its objectives within the next year or two as opposed to waiting 5 years to complete 100 percent.

FEI believes that through effective implementation of the CFO Act at the Department of Commerce, it is possible to improve the efficiency and effectiveness of the Department while at the same time saving taxpayer dollars. Accomplishing the Department's financial management goals, both short and long term, however, will require strong leadership and substantial resources. And while the Department has many financial management problems, some progress is being made in addressing those problems. But much remains to be done.

The Department's leadership must understand that, without their support, the long-term financial managements goals set out in the 5-year plan will not be achieved. The rewards of improved financial management are tremendous.

Implementation of effective internal controls and systems, credible financial statements, and the presence of dedicated financial professionals within the Department can achieve benefits a hundredfold compared to their costs.

Mr. Chairman, thank you for this opportunity to appear before the subcommittee this morning. I would be pleased to answer any questions.

[The prepared statement of Mr. Adams follows:]

Testimony of Buel T. Adams

Vice President & Treasurer, CBI Industries, Inc.
on behalf of
FINANCIAL EXECUTIVES INSTITUTE

before the
U.S. House of Representatives
Committee on Government Operations
Subcommittee on Commerce, Consumer, and Monetary Affairs

June 28, 1994

Good morning. My name is Buel T. Adams. I am Vice President and Treasurer of CBI Industries, Oak Brook, Illinois and Chairman of Financial Executives Institute's Committee on Government Liaison (CGL). Financial Executives Institute is a professional association of 14,000 chief financial officers, treasurers, and controllers from some 8,000 corporations throughout the United States and Canada.

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In 1993, for the first time, the Clinton Administration publicly reported the status of the financial management in each of the 23 agencies covered by the CFO Act. In that report, the Office of Management and Budget (OMB) announced that only two of the twenty three government agencies had financial records that were reliable for fiscal year 1992. After reading OMB's report, our Committee decided to review a number of these audited statements. One of the agencies' financial statements we reviewed was that of the Commerce Department.

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controls throughout the Department. The IG reported that the financial systems at most agencies "are outdated, inefficient, and generally lack adequate internal accounting controls. The result is inaccurate and incomplete financial information that is of limited value". Given these circumstances, it is difficult to fairly evaluate the financial condition of the Department.

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Need for Strong Leadership

Our primary concern focuses on the need for strong leadership from the top levels of the Department in support of improved financial management. Without such a commitment, the necessary improvement simply will not take place. In the latest IG Semiannual Report to the Congress, the Inspector General stated that, "except for budgetary matters, senior managers at most bureaus have shown limited interest in financial management issues." This lack of leadership, the IG goes on to say, "has resulted not only in the poor condition of existing financial records and systems, but more significantly, in a general de-emphasis on the role [and] importance of the financial management function."

As an example of this de-emphasis, the IG noted that the highest ranking financial officer at two Commerce bureaus, National Institute of Standards and Technology (NIST) and Census, has been subordinate to an administrative directorate. Because of significant financial management deficiencies identified during their audit work, the OIG has recommended several times that both bureaus establish a chief financial officer position that would report directly to the bureau head. In addition, the IG has recommended recruitment of strong financial executives to fill these positions.

In compliance with the CFO Act of 1990, the Commerce Department created in 1991 the position of CFO and Assistant Secretary for Administration. In our review of the Five Year Financial

Management Plan, we learned that this position also has major responsibilities for the budget, information resource management, personnel management, civil rights, procurement, property, and financial assistance. It seems that the primary responsibilities for the position are largely administrative and not financial and that the CFO responsibilities were merely tacked on to the already-existing responsibilities of the Assistant Secretary for Administration.

It is our opinion that this was not what Congress envisioned when it passed the CFO Act. We note, however, that this broad set of responsibilities is not unique to the Commerce Department. Unfortunately, many of the other federal agencies have added the CFO duties to the responsibilities of their respective Offices of Administration.

In light of the vast financial management problems plaguing the Commerce Department, we would recommend that the administrative responsibilities of the CFO be re-assigned to an assistant secretary for administration, so that the CFO could concentrate on getting the Department's fiscal house in order.

Incremental Audit Approach

Although the IG repeatedly found deficiencies in the bureaus' internal controls of such magnitude that it precluded the bureaus' financial statements from being audited, we were impressed with the IG's "Incremental Audit Approach" that was developed to assist the Department in complying with the CFO Act audit requirements.

Under this plan, the IG will perform internal control surveys (which are more cost efficient than full scale audits) to uncover major problems in the financial and accounting operations of the bureaus. These surveys will then be followed by more in-depth audits. These are scheduled to be completed by FY 1994 and by FY 1995 at several larger bureaus.

While we endorse this approach to resolving the Department's internal controls problems, we question the length of time it will ultimately take for all of the bureaus to produce reliable financial

information, given that the CFO Act was passed in 1990. we would rather see improvements be made at a faster pace, similar to the schedule of Commerce's National Technical Information Service (NTIS), which has been statutorily required to provide audited financial statements since FY 1989. Although major internal controls weaknesses were discovered in NTIS' initial audit in FY 1989, improvements were made in a short period of time and resulted in unqualified opinions being rendered in FY 1991 and FY 1992. Given NTIS's experience, we would think that the other bureaus could achieve equal success in a similar time frame.

Improving Financial Management Systems

To improve its overall financial management systems, the Department has devised a two-tier plan that addresses both its short and long term financial management needs.

The Commerce Administrative Management Systems (CAMS) has been designed to replace and/or integrate existing financial and administrative management systems. However, CAMS will not be fully implemented until sometime in FY 1998. Until then, a shorter-term initiative, Commerce Financial Reporting System (CFRS), will be put in place to implement the reporting requirements of the CFO Act.

Here again, we question the length of time required to develop a new financial management system. Off the shelf software and systems are currently being used by countless companies in the private sector and should be considered by the Commerce Department. We would recommend that the Department accelerate its timetable for purchasing and implementing its new financial management system and prioritize its financial management needs in an effort to achieve 70 to 80% of its objectives within the next year or two as opposed to waiting five years to complete 100%.

Conclusion

FEI believes that, through effective implementation of the CFO Act at the Department of Commerce, it is possible to improve the efficiency and effectiveness of the Department while, at the same time, saving taxpayer dollars. Accomplishing the Department's financial management goals,

both short and long term, however, will require strong leadership and substantial resources. And while the Department has many financial management problems, some progress is being made in addressing those problems. But much remains to be done. The Department's leadership must understand that, without their support, the long term financial management goals set out in the Five Year Plan will not be achieved. The rewards of improved financial management are tremendous. Implementation of effective internal controls and systems, credible financial statements and the presence of dedicated financial professionals within the department can achieve benefits a hundredfold, compared to their costs.

Mr. Chairman, thank you for this opportunity to appear before the Subcommittee this morning. I would be pleased to answer any questions.

Mr. SPRATT. Let me take my cue on the next-to-last paragraph of your testimony here, where you say, "The Department's leadership must understand that without their support." Do you think they do not understand that? Do you think their support is lacking?

Mr. ADAMS. I don't know the specifics of this Department. Judging from the testimony of the gentlemen this morning, I would say that Secretary Brown does have the adequate sense of what the importance of a financial management system would be. So my feeling probably would be in this case, just from what I hear, I would say he is off to a good start.

Mr. SPRATT. You made a pretty complete and well-informed review of the status of their efforts to implement the CFO Act and its requirements. To what extent have you been inside the Department? Is this mainly from reading the audit reports?

Mr. ADAMS. It is mainly from reading outside. I have a full-time job, as do all of our committee, so we don't have an opportunity to take time off and spend time with the Department. So this is purely from an outsider's viewpoint. It is a private sector perspective on what has been accomplished, as far as we can tell from what is written up.

Mr. SPRATT. Can you point to software that is off the shelf readily available that they might——

Mr. ADAMS. That is not my field of expertise. I know in my company, which is half the size of the Commerce Department, we do that all the time. We don't have a chief information officer. We are our own chief information officers. And we get the software that we think is necessary to solve our own problems. And we don't wait 4 years to get things resolved.

Mr. SPRATT. You are critical of the fact that the CFO is also the Assistant Secretary for Administration.

Mr. ADAMS. Yes, sir.

Mr. SPRATT. And you recommend divorcing these two offices, these two responsibilities.

Mr. ADAMS. Yes, sir.

Mr. SPRATT. Is there another way to approach this? The CFO has responsibilities for budget. That doesn't seem to me to be illogical.

Mr. ADAMS. No, sir.

Mr. SPRATT. And one of the things we are requiring is that this financial management system also interconnect with the budget system so that one can move from the budget numbers into the financial numbers, back and forth. That would seem to be a reasonable responsibility.

Mr. ADAMS. Yes.

Mr. SPRATT. Information resource management. I am not quite sure what that means. It probably means different things to different people. If it means management information, I would think we might want to give them that responsibility since that is one of the focal points of the financial plan he has been implementing.

Mr. ADAMS. Not all information is financial in nature. Operational information should probably stay with the bureaus, I would say.

Mr. SPRATT. Possibly so.

Mr. ADAMS. Again, I think a lot of companies don't have CIO's, or chief information officers, anymore because information has diffused down into departments as opposed to being centralized, as it used to be.

Mr. SPRATT. I opened up with the witnesses this morning by talking about the broader picture other than just green-eye-shade auditing. And we talked about programmatic budgeting and variance analysis and management information systems, cash management systems, things like this. Are we expecting too much?

Mr. ADAMS. Not at all. I think you were right on point, Mr. Chairman, in your analysis of the types of systems that comprise financial management. I was very impressed listening, because you could have been a director of my company.

Mr. SPRATT. I am not sure of that. I just learned to speak the vocabulary. I couldn't implement any of the things I described.

Mr. ADAMS. That is all right. You named the important things.

Mr. SPRATT. If these are the objectives of a financial system, the sort of system we want to implement in Commerce, it seems to me a broader portfolio would be in order for the CFO than just financial management.

Mr. ADAMS. In any company, a CFO has its fingers in all aspects of the company. He just doesn't have responsibility for everything. And I think especially in a Department like Commerce, where financial controls are lacking, and a lot of attention needs to be paid, it is distracting, in my judgment, to have a CFO who has to worry about personnel management, procurement, et cetera, and doesn't have the full capacity of his time to devote to the No. 1 priority, which should be financial management.

Now, if you go on, if you take a situation, a company has matured and things are running kind of smoothly, then yes, maybe you could have a CFO who has these other types of responsibilities. It seems to me if we are in a crisis as we are with Commerce, we need somebody whose time is fully dedicated to the financial management.

Mr. SPRATT. One concept I was exploring with them this morning is that clearly one of the things in the government that we need to do better is manage people. And this is largely a services business. And measuring the efficiency of services, the productivity of people, is not easy to do.

And so that was one reason I was at least broaching the possibility that maybe it is not a bad idea to have the financial management Assistant Secretary also responsible for personnel since a large part of his job ought to be trying to figure out whether or not he is getting as much as we should be getting out of the 36,000 people that are working for him.

Is that unreasonable?

Mr. ADAMS. I guess I just have to think about what my company's human resource department does. And I would say 90 percent of what they do falls outside of the area of financial management. If I were CFO of my company, which I am not, and I had to worry about everything that they had to worry about, I would have precious little time——

Mr. SPRATT. Keeping up the pension plan contribution, things like that.

Mr. ADAMS. Perhaps it is different in the government. But in the private sector the human resources is a very large function itself.

Mr. SPRATT. Thank you for your testimony.

Mr. Cox.

Mr. COX. Thank you, Mr. Adams. I appreciate very much your perspective. I will go through your testimony again, because it is so impressive to think about 14,000 people from 8,000 corporations throughout this country and Canada who comprise the Financial Executives Institute, I know how supportive you and your organization and all of that membership were of the passage of the CFO Act, how much you lobbied for it, and I am especially impressed that you are here for the followthrough.

Mr. ADAMS. We view that as part of our responsibilities as citizens and also experts in financial management.

Mr. COX. You noted in your testimony that you are troubled by the length of time it is going to take the Department by its own estimates to institute a financial system. Your company, you said, is half the size——

Mr. ADAMS. $1.7 billion revenues.

Mr. COX. Let's take a company that is the same size as Commerce, the Chrysler Corp. If Chrysler President Bob Lutz wanted to institute a new financial system, would one expect it to take 7 years?

Mr. ADAMS. I think he would probably have three generations of new automobiles out within 7 years. No, absolutely no. Absolutely not. In this day and age, even the most sophisticated financial system should substantially be up, I would say, within 2 years. You just have so many tools available to you, you don't need to invent the thing from scratch.

Mr. COX. Why are we then hearing what we are hearing?

Mr. ADAMS. I can only surmise. I hear personnel, I hear the need to run through a lot of layers of acceptance, things like that which don't exist in the private sector. When you get to the private sector, in the private sector you make a decision, you present it to the chairman, and he says yes, and if it is necessary go to the board, OK, and we are off and running. It doesn't take 2 years.

Mr. COX. Yet here Congress is not only out of the way and not interfering, but Congress several years ago passed a law commanding this result. So don't we have that directive from on high, signed by the President?

Mr. ADAMS. I would certainly agree with it. You are talking about the inertia, I guess, within the government bureaucracy.

We look from the private sector in horror at the time it takes to get things done. There is clearly some fighting about that internally within the government, some resistance.

Mr. COX. Now, in a few months, 4 months, I guess, Commerce is going to decide who is going to be the prime contractor to design or implement or install their CAMS approach to this problem. GAO tells us that off-the-shelf software, which you are recommending, as compared to this custom-designed software maintained by an outside contractor is not as fancy and not as expensive, implying, I guess, that more expensive and fancier is better.

But are there not downsides to having custom-designed software maintained at extra expense by an outside contractor?

Mr. ADAMS. Absolutely. One of the advantages of off-the-shelf software is that you have a company maintaining it and keeping it up to date, that company has been in business for a long period of time. You know it will still be there years from now. When you have to have a further update, you get a contractor coming in to design a special system, you better be sure he is going to be around and you better be prepared to pay him to consistently maintain and upgrade that software.

Mr. COX. The Financial Executives Institute has worked with other Cabinet departments on financial accounting. To the best of your knowledge, is it likely other Cabinet departments are going to use the same outside vendor to do their custom software? If not, how will we be able to integrate all of these different systems, which is really one of the problems to which the CFO Act was addressed?

We cannot consolidate financial statements because of the multitudinousness of accounting systems throughout the Federal Government.

Mr. ADAMS. I do not know what the other departments are doing about accounting systems. I share with you, Congressman, your concern about the ability to integrate the results of a specially designed accounting system with the other Cabinet departments. To me, this is one of the areas I think that OMB—some of you gentlemen asked what OMB's responsibility was. I think this is one of the areas where they have to set some ground rules, to make sure things do fall together, that they are internally consistent.

Mr. COX. Finally, what can we do as the Congress and as a committee, to hasten achievement of our objective?

Mr. ADAMS. I would say the start that you have made today is outstanding. I was thinking to myself, as I listened to the very excellent questions from all of you, I wish that every department within the government had a board of directors, which is how I view yourselves, as good as you folks are. And the questions you asked were right on point.

What you can do is be prepared to hold these kind of hearings at least once a year and hold their feet to the fire, make them accountable. A year from now, if we are together, and we haven't heard the progress that Secretary Brown was forecasting, then I think we have a problem. If they have made some progress, we can give them some extra leeway. But I think you are doing just exactly what you should do.

Mr. COX. I thank you very much.

Mr. SPRATT. Thank you, sir.

Mr. Horn.

Mr. HORN. Thank you, Mr. Chairman.

Mr. Adams, I have enjoyed your testimony. I notice by your extensive background you have been treasurer, controller, and CFO with several companies.

Mr. ADAMS. Yes.

Mr. HORN. Let me ask you, in the CFO role with private companies, were you usually a member of the chief executive officer or chief operating officer's cabinet that ran that company?

Mr. ADAMS. Yes, I was, Mr. Horn.

Mr. HORN. Do you think the CFO in a Federal agency should be part of the Cabinet of the Secretary and Deputy Secretary of a particular Cabinet department?

Mr. ADAMS. Absolutely. In fact, as Congressman Cox noted, my committee was at least partially instrumental in getting the passage of the act. Our position at that time was that the Federal CFO ought to be a Cabinet position itself. I think anything that one can do to elevate the clout and the responsibilities of the CFO is going to lead to success in its implementation.

Mr. HORN. In other words, you would have as part of the Executive Office of the President, equivalent perhaps to the Office of Management and Budget and other offices that have their own continuing institutionalization between administrations, a chief financial officer to provide guidance across the executive branch in this area?

Mr. ADAMS. Yes, sir.

Mr. HORN. Separate from Management and Budget?

Mr. ADAMS. That would be ideally what we would like to see, yes.

Mr. HORN. I think you make a very good point, because you heard in the questioning of several of us that we have a feeling that, noble as that might be, and as integrative as that might be, there is a real problem and a conflict of interest when one who is the assistant secretary for administration has a whole series of things that could be a headline every day, which finance can also be a headline every day, and you wonder how much time is given to the chief financial officer role.

So I think that is a real concern this committee ought to be pursuing. The reality is that the Cabinet Secretary doesn't have time to worry about these things. The Cabinet Secretary is at the White House, the Cabinet Secretary is on the road, and if anybody is worried about them, in most departments with which I am familiar, under six administrations, it is the deputy secretary or the under secretary that is the one that tries to stay at home and keep the pieces together in some semi-orderly way.

So you would agree the CFO ought to be part of whatever that internal Cabinet is.

Mr. ADAMS. Absolutely.

Mr. HORN. Well, I agree with you.

Now, recently I read in the newspaper that the Ford Motor Co. had decentralized its powerful office of finance, as it was described, down to the operating divisions. And the finance perhaps had too much power for a long period at Ford where everything seemed to be converted, especially under the founder's grandson, to numbers that related to finance, and sometimes they missed what the mission of the Ford Motor Co. was.

What, if anything, can we learn from what Ford is now doing as the degree to which decentralization of this function needs to get down to the operating divisions?

Mr. ADAMS. Well, I am not intimately familiar with Ford. As I understand their situation, they have had historically a very centralized financial function, which made a lot of decisions without having day-to-day contact with the people and the problems that were supposed to be carrying them out.

I think what Ford has done is very analogous to what is true here in the government. You do have CFO's at Commerce and all the other departments. And I think that is what Ford is saying: We want that same kind of operation. To be analogous to where Ford was, you would have OMB being the entire financial function and have no CFO's at the Cabinets. I think we all agree that wouldn't be a workable situation.

Mr. HORN. In many companies the controllership reports to a business manager or a vice president for business affairs. Same thing happens in a university. What analogy, if any, and what are the differences in your mind, in the institute's mind, between a chief financial officer and the controller function as it occurs in many universities or other agencies?

Mr. ADAMS. In most businesses, private industry, the chief financial officer has a much broader set of responsibilities than the controller does. Normally the controller would be reporting to the chief financial officer. The controller would be the chief accounting officer, the head bookkeeper, if you want. In addition to him, the CFO normally would have a treasurer, probably a risk manager handling insurance, sometimes could be a chief information officer, tax people and so forth reporting to him, or her. It is a much broader position.

Mr. HORN. So really the CFO is conceived by the institute, the people that drafted the law, which is before my time, is really that of the vice president for finance in most organizations.

Mr. ADAMS. Yes, that is correct.

Mr. HORN. And would truly qualify to be one of the key officials in any cabinet central executive group that advises the chief operating officer and the chief executive officer.

Mr. ADAMS. Yes, that is correct.

Mr. HORN. Thank you.

Mr. SPRATT. Mr. Adams, thank you very much for your testimony. We appreciate it. We know you have taken your own private time to come here. But you have been enormously helpful giving us an outside perspective on it. And we do appreciate it.

Mr. ADAMS. Thank you, Mr. Chairman. It has been my pleasure.

[Whereupon, at 12:35 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

JOHN CONYERS, JR., MICHIGAN
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July 22, 1994

Hon. Thomas R. Bloom
Chief Financial Officer and Assistant Secretary for Administration
U.S. Department of Commerce
Washington, DC 20230

Dear Mr. Bloom:

We appreciated very much your testimony June 28 on implementation of the Chief Financial Officers Act at the Commerce Department. Thank you for your contribution.

In order to cover certain key aspects of this subject in further detail, I would appreciate your providing answers to certain additional questions that were not adequately addressed in the hearing. Your responses to these questions will be included in the printed hearing record as supplementary information.

1. Department-wide audited financial statements: I understand that certain smaller bureaus within the department do not have activities or funds for which audited statements are currently required under the Chief Financial Officers Act. Audited statements would have to be prepared for these entities, however, in order for the department to be able to prepare consolidated department-wide audited financial statements. Have you plans to prepare consolidated audited statements for the entire department at some time in the future?

2. Array of legislative requirements: There appears to be a close interrelationship, and possibly some overlap, in the requirements of the CFO Act, the Federal Managers Financial Integrity Act (FMFIA), and the Government Performance and Results Act (GPRA). Do see this as an area where some statutory revisions may be needed, possibly to integrate these acts? What, specifically, would you suggest in the way of revisions, and for what purpose would these revisions be recommended?

3. Culture of financial accountability: Instilling strong financial management throughout the department requires (among other things) assuring the presence, throughout the financial management staff, of a culture of financial accountability. I anticipate that this may require a change in the present cultural attitude toward financial affairs in the department. What are you doing to strengthen the culture of financial accountability, especially in the bureaus? For example, is the Secretary or Deputy Secretary acting as the spearhead of a campaign to "sell" the new mandate of financial accountability throughout the staff ranks?

4. Bureau CFOs: Could you give us some background on the issue of designating CFOs for the individual bureaus of the department? More specifically, please respond to the following:

a. Is appointment of bureau CFOs an objective of the department, and if so, how are you proceeding to implement this objective?

b. Will it be your intention to have bureau CFOs report directly to the bureau heads?

c. The Inspector General's report for March 1994 singles out NIST and the Census Bureau for particular mention as bureaus where a CFO reporting directly to the bureau head should be appointed. I understand that a CFO post has been created and may soon be filled at Census, but what is happening regarding a CFO for NIST?

5. Management discipline: The General Accounting Office, in its 1993 Transition Report on Financial Management stated, "Past efforts to develop new financial systems have repeatedly failed. Until agencies instill management discipline, these expensive and time-consuming failures will continue." (page 28)

GAO seems to be issuing a cautionary warning that it takes more than throwing money and a new CFO law at the problem to get real progress. How do you view the issue of management discipline? What will be the checks and balances in your system, or the oversight mechanism, to provide that discipline?

6. Staff development planning: The financial management plans of the department will require major improvements in the skills of the department's financial management professionals, either through internal training or through hiring new staff with appropriate skills. This suggests the need for a staff development plan for financial management having at least the following elements: (i) an inventory of present financial management staff by specialty and relevant skills; (ii) a chart or analysis showing the desired staff configuration at certain future time points in each bureau; (iii) a statement for internal circulation and staff counseling of acceptable migration paths by which present staff can qualify themselves for various future positions in financial management, either through internal training or added outside education; and (iv) a management plan for achieving the target staff configurations at various future time points.

Do you have such a written staff development plan for financial management? May the subcommittee have a copy of this document? If you do not yet have one, will one be prepared? When do you expect this plan to be complete?

7. CAMS switchover: It is my impression from staff conversations that the department's implementation of the core financial system module of the CAMS (Commerce Administrative Management System) will be accomplished, bureau by bureau, without any transitional period of dual operations with the old financial accounting systems. Is this impression correct?

This strategy of a complete switchover, without overlapping dual operations, entails certain risks if the new system does not perform as planned, especially in the first bureau that does this. In connection with this plan:

a. By what criteria will the decision be made that the new system is ready for full-scale implementation, and who will make this decision? What specific tests will be performed on the system before implementation, and what maximum allowance for variances or errors must be achieved in order for the system to be judged ready for implementation?

b. What will be the department's recovery procedure if the core financial module, after having been fully implemented at one bureau, breaks down, corrupts data, and cannot be relied upon for an indefinite period of time?

8. Data security - protection from unauthorized access: Recent press stories about widespread unauthorized access to Defense Department computer networks by outside hackers, and the recent reports of unauthorized snooping into individual IRS taxpayer files by IRS employees, both illustrate the critical importance of computer system security procedures in order to protect the integrity of the data they contain. What security procedures for controlling access will be built into the CAMS system? Have you prepared a computer systems security planning document? May the subcommittee have a copy of that document?

9. Reengineering: OMB's Circular A-127 governing financial management states (page 9) "Process redesign shall be considered an essential step towards meeting user needs ...." Where will process redesign be worked into your financial management plans? Will reengineering of functions be institutionalized as an ongoing activity at Commerce?

Do you anticipate that Commerce will apply the discipline of business process reengineering (BPR) to some of its financial management responsibilities, as a methodology for redesigning things from the ground up? Have you started a formal effort along these lines? Where, specifically, are you employing BPR, and what do you hope to accomplish in each area?

10. Cost accounting for performance evaluation: One of the critical functions for a good financial management system is a system of cost accounting that will permit the comparison of project or activity results and performance with the costs of those projects or activities. According to your Five-Year Plan, your core financial system, when implemented, will provide in some manner for cost allocations to be made. In connection with this portion of your core financial system I have two questions:

a. Will your specifications for the cost accounting module provide unequivocally for allocation of all costs - including overhead costs - to particular projects, activities, or performance objectives, so that we in Congress can use that cost information for making performance judgments?

b. The CFO Act, which requires both cost accounting and performance measurement, does not explicitly link these two. Will your system go beyond the explicit requirements of the CFO Act in this respect?

Thank you in advance for your efforts in responding to these inquiries. We would appreciate your responses at your earliest convenience so that we may complete the hearing record.

Sincerely yours,

John M. Spratt, Jr.
Chairman

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July 27, 1994

Hon. Francis D. DeGeorge
Inspector General
U.S. Department of Commerce
Washington, DC 20230

Dear Mr. DeGeorge:

We appreciated very much your testimony June 28 on implementation of the Chief Financial Officers Act at the Commerce Department. Thank you for your contribution.

In order to cover certain key aspects of this subject in further detail, I would appreciate your providing answers to certain additional questions that were not adequately addressed in the hearing. Your responses to these questions will be included in the printed hearing record as supplementary information.

1. Culture of financial accountability: In your prepared statement you presented some fairly negative observations about the commitment to financial management within the department's bureaus, and you recommend, among other things, the appointment of bureau chief financial officers, particularly at Census and NIST. Do you view this problem as, at least in part, a matter of staff attitudes and the organizational culture? That is, do the bureaus lack a strong culture of financial accountability?

   Do you feel that appointment of bureau CFOs with appropriate responsibilities and standing within the organization will adequately address the issue of cultural attitudes toward financial accountability? If not, what other steps would you recommend to strengthen the culture of financial accountability, especially in the bureaus?

2. Management discipline: The General Accounting Office, in its 1993 Transition Report on Financial Management stated, "Past efforts to develop new financial systems have repeatedly failed. Until agencies instill management discipline, these expensive and time-consuming failures will continue." (page 28)

   GAO seems to be issuing a cautionary warning that it takes more than throwing money and a new CFO law at the problem to get any real progress. How do you view the issue of management discipline? What should be the checks and balances or the oversight mechanism to provide that discipline?

3. Data security - protection from unauthorized access: Recent press stories about widespread unauthorized access to Defense Department computer networks by outside hackers, and the recent reports of unauthorized snooping into individual IRS taxpayer files by IRS employees, both illustrate the critical importance of computer system security procedures in order to protect the integrity of the data they contain. Has the Office of Inspector General evaluated the security procedures for controlling access that will be built into the CAMS system, or do you plan to do so? What are your findings on this matter?

Thank you in advance for your efforts in responding to these inquiries. We would appreciate your responses at your earliest convenience so that we may complete the hearing record.

Sincerely yours,

John M. Spratt, Jr.
Chairman

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D C 20230

AUG 08 1994

Honorable John M. Spratt, Jr., Chairman
Subcommittee on Commerce, Consumer, and
Monetary Affairs
Committee on Government Operations
House Of Representatives
Washington, DC 20515-6144

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COMMERCE, CONSUMER AND
MONETARY AFFAIRS SUBCOMM

Dear Mr. Chairman:

In response to your request dated July 27, 1994, we have prepared additional information on the Department of Commerce's implementation of the Chief Financial Officers Act. Specifically, we have included responses to your questions regarding Commerce's culture of financial accountability, the importance of management discipline in implementing the Commerce Administrative Management System (CAMS), and CAMS data security.

1. Culture of financial accountability:

Over the years, an erosion of financial accountability has occurred in most of Commerce's bureaus. As indicated in our June 28 testimony, this was, in large part, due to senior managers' lack of interest and involvement in financial management areas other than the budget. Not making all areas of financial management a priority has led to a deemphasis of the role, importance, and organizational standing of the function itself. This, in turn, led to an erosion in both quality and quantity of staff which, in turn, led to an erosion in practices, data, and systems. The key to correcting this condition and creating a culture of accountability is financial management leadership.

Appointing highly qualified CFOs and ensuring that they are given appropriate authority, responsibility, and accountability should provide this leadership. This is especially true at the Census Bureau and NIST. However, no matter how good the CFO and other financial managers are, to implement financial management reform, they must have the full commitment and support from their respective bureaus' heads, program leaders, and other key officials. Moreover, a cadre of qualified staff must be established either through training or hiring to ensure the reforms become inculcated into the financial management environment.

Financial managment at Commerce, with its diverse bureaus and myriad of financial-related functions, presents a formidable challenge for any CFO. Leading and managing the fundamental changes that must occur to create a culture of accountability will further add to this challenge.

2. Management Discipline:

Any financial management system has three inextricably coupled components: financial practices and data, qualified and trained managers and staff, and computer hardware and software. Preparing for and implementing a new financial management system is a complex and time-consuming project involving far more than the mere acquisition of computer software and hardware. The entire financial management environment within a bureau must be thoroughly understood prior to implementing the new system. Financial managers must have a complete understanding of why deficiencies and bad data are occurring. Existing systems that will interoperate with the new system must be carefully analyzed. Internal control practices must be streamlined and improved. Discipline is required, not only to successfully implement the physical system that will support financial management, but also to ensure that sufficient time and effort are spent identifying and correcting deficiencies, improving practices, providing training, and possibly hiring new staff. The management and orchestration of practices and data, people, and computers coupled with the interactions among them to bring the entire new system to fruition require management commitment and discipline beginning with a sound project plan.

However, the CAMS project plan is very general at this point. Numerous issues have not been resolved because the central component of CAMS, the Core Financial System, has not been selected. We have recommended to the Department that it solidify project details as soon as possible so that realistic costs, schedules, and required levels of effort can be identified. This is necessary so that the required discipline can be imposed. We have also recommended that an independent review be conducted of the project plan to identify technical and managerial risks and to offer solutions.

Management discipline is also required throughout the project. The project team has developed criteria for determining when the project should move from one milestone to the next. We think this is the right approach. In fact, we believe that periodic reviews should be conducted at major project milestones to (1) ensure that emerging problems are identified and corrected as early as possible, (2) provide top managers visibility into the project's progress, and (3) ensure that the project proceeds to the next milestone only if justified by events. We and the Department are committed to the CAMS goal of improved financial management and systems and are working together to promote the level of discipline needed for an effort of this magnitude.

3. Data Security:

The request for proposal for the Core Financial System does contain system security requirements. We plan to assess the adequacy of CAMS system security as part of our ongoing oversight on this major project.

If you or your staff have any additional questions, please call me on (202-482-4661) or contact my congressional liason officer, Marilyn Depew, on (202-482-3052).

Sincerely,

Francis D. DeGeorge
Inspector General

UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer
Assistant Secretary for Administration
Washington, D C 20230

AUG 16 1994

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AUG 16 1994
COMMERCE, CONSUMER AND
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The Honorable John M. Spratt, Jr.
U.S. House of Representatives
Washington, D.C. 20515-6143

Dear Congressman Spratt:

I want to thank you for the opportunity to followup on my testimony on the implementation of the CFO Act at the Commerce Department. Enclosed is the requested supplementary information. I am confident the responses to the ten questions outlined in your letter of July 22 adequately address the issues. If you would like any additional information, please don't hesitate to let me know.

Sincerely,

Thomas R. Bloom

Enclosures

Enclosure 1

Department OF COMMERCE
HEARING ON FINANCIAL MANAGEMENT AND CFO ACT IMPLEMENTATION
SUPPLEMENTARY INFORMATION

1. **Departmentwide audited financial statements: I understand that certain smaller bureaus within the Department do not have activities or funds for which audited statements are currently required under the Chief Financial Officers Act. Audited statements would have to be prepared for these entities, however, in order for the Department to be able to prepare consolidated Departmentwide audited financial statements. Have you plans to prepare consolidated audited statements for the entire Department at some time in the future?**

   Consolidated Departmentwide audited statements are planned for the fiscal year 1998 reporting period. This time frame corresponds to scheduled full-scale implementation of a standard core financial system across the Department. The scheduled phased implementation of the core financial system will afford sufficient opportunity to test statement consolidation prior to preparation of a statement covering FY 1998. In the meantime, the Department will continue to implement an incremental program to achieve fully audited financial statements at most bureaus for the FY 1995 reporting period. Our plans are to achieve Departmentwide audits of financial statements for the FY 1996 reporting period to include the bureaus not presently required to submit audited financial statements under the CFO Act. This will be reflected in our CFO Five-Year Plan which is currently being developed.

2. **Array of legislative requirements: There appears to be a close interrelationship, and possibly some overlap, in the requirements of the CFO Act, the Federal Managers Financial Integrity Act (FMFIA), and the Government Performance and Results Act (GPRA). Do see this as an area where some statutory revisions may be needed, possibly to integrate these Acts? What, specifically, would you suggest in the way of revisions, and for what purpose would these revisions be recommended?**

Each piece of legislation seeks to improve management of the Federal Government and enhance accountability. While consistent in intent, each law targets different managerial levels with varying requirements; thus they cause some redundancy and overlap across Federal programs. For instance, two of these Acts call for performance measurement, while two require audits or reviews of management functions; and each law contains unique reporting requirements. In many cases, separate organizations have been assigned to oversee the implementation of each of these Acts.

The Department believes that statutory revisions are necessary. Congress should give serious consideration to merging all three and creating a single piece of Federal management legislation requiring one reporting mechanism.

3. **Culture of financial accountability: Instilling strong financial management throughout the Department requires (among other things) assuring the presence, throughout the financial management staff, of a culture of financial accountability. I anticipate that this may require a change in the present cultural attitude toward financial affairs in the Department. What are you doing to strengthen the culture of financial accountability, especially in the bureaus? For example, is the Secretary or Deputy Secretary acting as the spearhead of a campaign to "sell" the new mandate of financial accountability throughout the staff ranks?**

The Department is changing the culture of financial accountability. First, we recognized that financial accountability is a responsibility of program management, and program managers must embrace financial accountability. Secondly, we recognized that strong financial leadership is required to achieve changes to the Department's financial systems and practices that will result in measurable management accountability over financial results.

In January 1994, the Acting CFO brought to the attention of Secretarial officers and heads of operating units a brochure and self assessment material available from OMB entitled, Financial Management for Program Managers: Accountability

in Federal Program Operations. The brochure and related material were designed to help link the NPR goal of decentralized control, and management accountability over financial results and use of public resources.

With respect to the second area, the Secretary has taken steps to ensure that capable financial management leadership exists at the top. In turn, the Deputy Secretary and the CFO are moving to ensure strong financial leadership in each of the Department's operating units.

In addition, the Department is moving to implement the ideas and recommendations of Vice President Gore's Report of the National Performance Review (NPR). Steps are being taken to strip away levels of review that have been allowed for too long to substitute for management accountability. We are removing administrative barriers to management accountability by eliminating many of our internal regulations.

Finally, the Secretary of Commerce has challenged not only top management officials, but all Commerce employees to take action to bring excellence to our customers. In so doing, he has issued "permission slips," that serve as a reminder to each of us that we have the authority and the responsibility to make Government work better and cost less.

The CFO and financial managers in each of the operating units are committed to developing strong financial management organizations, services, and systems that are (1) capable of meeting the requirements of program managers, and (2) able to promote accountability through improved financial reporting and disclosure of program and financial results.

4. **Bureau CFOs: Could you give us some background on the issue of designating CFOs for the individual bureaus of the Department? More specifically, please respond to the following:**

a. Is appointment of bureau CFOs an objective of the Department, and if so, how are you proceeding to implement this objective?

b. Will it be your intention to have bureau CFOs report directly to the bureau heads?

c. The Inspector General's report for March 1994 singles out NIST and the Census Bureau for particular mention as bureaus where a CFO reporting directly to the bureau head should be appointed. I understand that a CFO post has been created and may soon be filled at Census, but what is happening regarding a CFO for NIST?

The Department objective is to appoint Bureau CFOs at the larger bureaus. This has already been done at PTO where an existing position was just designated as the CFO. For a number of years we have had the equivalent position of a CFO at NOAA in the position of the Comptroller. Plans have been developed to appoint CFOs at Census and NIST. At present, NTIS is the only smaller bureau to have established the equivalent of a CFO position. At a later date, we will consider the need for additional CFO positions in the smaller bureaus. It is our intention to have Bureau CFOs report directly to the bureau heads.

5. **Management discipline: The General Accounting Office, in its 1993 Transition Report on Financial Management stated, "Past efforts to develop new financial systems have repeatedly failed. Until agencies instill management discipline, these expensive and time-consuming failures will continue." (page 28)**

GAO seems to be issuing a cautionary warning that it takes more than throwing money and a new CFO law at the problem to get real progress. How do you view the issue of management discipline? What will be the checks and balances in your system, or the oversight mechanism, to provide that discipline?

The CAMS initiative is based on solving the business problem associated with accounting and financial management. As such, it does not focus on technology for technology sake.

It focuses on establishing within each of the bureaus an opportunity to reinvent the business processes and to empower both administrative and program managers.

Management discipline is embedded within the CAMS program in the following ways.

a. A Steering Committee has been established and is composed of senior Departmental officials from the Office of the Secretary and the individual bureaus. The Steering Committee oversees the CAMS project, provides resources, and provides input into major decisions affecting the strategy and requirements for the project.

b. A project manager at our Implementation Center is accountable for the day-to-day project activities, CAMS project planning, system integration, and system implementation.

c. Software selection/acquisition teams are responsible for developing system requirements and using these requirements to acquire software packages that meet the needs of Commerce. These teams represent all of the users in Commerce and will acquire a single set of software that will be used by all of the DOC bureaus.

d. A dedicated CAMS implementation manager and supporting implementation team will be in place within each bureau. These implementation managers report to their senior Finance Director within each bureau. The implementation managers are responsible for developing and executing an approved Bureau CAMS Implementation Plan. These plans are reviewed by the CAMS Project Director.

e. Critical Success Factors (CSF) have been identified for each of the bureaus to help support the implementation of CAMS. These CSFs have been developed as a result of CFO Act audit reports and self assessment activities and are incorporated directly into each bureau's implementation plan/schedule. These CSFs are reviewed and accepted by each of the bureau's management. The

CSFs are translated into action items that are reported on by each of the bureau implementation teams. These reports are provided to the CAMS Project Director and CAMS Steering Committee.

f. Business Process Re-engineering (BPR) is being used within each bureau so that the organization can improve the way it does business. (Please see response to item 9.)

g. An active audit and oversight process is in place that includes our Office of the Inspector General (OIG). This process will help ensure that each of the bureaus proceeds with opportunities to improve their business processes, financial integrity, and ability to produce auditable financial statements.

6. **Staff development planning: The financial management plans of the Department will require major improvements in the skills of the Department's financial management professionals, either through internal training or through hiring new staff with appropriate skills. This suggests the need for a staff development plan for financial management having at least the following elements: (i) an inventory of present financial management staff by specialty and relevant skills; (ii) a chart or analysis showing the desired staff configuration at certain future time points in each bureau; (iii) a statement for internal circulation and staff counseling of acceptable migration paths by which present staff can qualify themselves for various future positions in financial management, either through internal training or added outside education; and (iv) a management plan for achieving the target staff configurations at various future time points.**

Do you have such a written staff development plan for financial management? May the subcommittee have a copy of this document? If you do not yet have one, will one be prepared? When do you expect this plan to be complete?

Staff development planning for financial management is being accomplished by the individual bureaus with assistance from the Office of Financial Management (OFM). A Continuing

Professional Education (CPE) program has been established which requires each bureau finance officer to (1) prepare an Individual Development Plan (IDP) for each of their financial management professionals, (2) select training courses and development activities for each financial management professional, (3) accumulate CPE credits by individual, and (4) report CPE results for inclusion in the Department's annual Five-Year Plan. Guidance provided (Enclosure 2) has outlined the requirements of the program to include courses and activities at each level of development. A minimum of forty credit hours of training or development per individual is expected per year. The finance officers have been asked to include the completion of the IDP as an element of the individual's annual performance appraisal process.

In addition to the staff development activities being managed at the bureau level, OFM, with staff assistance from the bureaus, is gearing up and beginning to provide extensive training and development for individuals who will be implementing CAMS.

7. **CAMS switchover: It is my impression from staff conversations that the Department's implementation of the core financial system module of the CAMS (Commerce Administrative Management System) will be accomplished, bureau by bureau, without any transitional period of dual operations with the old financial accounting systems. Is this impression correct?**

This strategy of a complete switchover, without overlapping dual operations, entails certain risks if the new system does not perform as planned, especially in the first bureau that does this. In connection with this plan:

a. By what criteria will the decision be made that the new system is ready for full-scale implementation, and who will make this decision? What specific tests will be performed on the system before implementation, and what maximum allowance for variances or errors must be achieved in order for the system to be judged ready for implementation?

The DOC strategy for completing the cutover from the existing system to the new core accounting system will be completed as follows:

(1) After selection, the CAMS software will be installed at the Department's Finance and Accounting Implementation Center (IC). This will establish an initial implementation and test site for the Department. The IC will conduct full life cycle testing, including acceptance testing of the modified baseline software. Once the IC has accepted the COTS package from the vendor, the software will be installed at the IC on computer equipment similar to that which will be used at a bureau site (i.e., the equipment will be the same manufacture and operating system, but will be a scaled down version). This system will be linked via communications lines to the bureau, though its operations are outside of the bureau's current and on-going daily operations.

(2) The CAMS software will be installed and configured to look exactly like it will when it is implemented at the bureau site. This includes edit tables, user IDs, file structures, LAN interfaces, etc. This will enable DOC to perform detailed testing, operations assessment, and evaluation of the CAMS software before it is approved for production.

(3) Bureau Implementation Teams and IC staff will receive training on all aspects of the software from the Vendor at the IC. Commerce is using a "Train-the-Trainer" approach to user training. The staff trained at the IC will then use the software at the IC (either in training facilities at the IC or via telecommunication links at bureau sites) to provide training to the system's users.

(4) All of the interfaces to the bureau's feeder systems will be developed and tested at the IC. Once testing by the bureau is completed, these

interfaces will be connected to the bureau's version of CAMS at the IC.

(5) The bureau will complete a conversion of its accounting and finance data from its existing systems to formats required by CAMS. This activity will be completed by the implementation team outside of the bureaus on-going day-to-day operations. All of the bureau's financial data will be converted beginning with the oldest data and coming forward to the most current.

(6) A bureau and IC team will complete a full "shake down" and beta test of the CAMS system at the IC using the most recent 2 to 4 months of the bureau's converted data. All of the interfaces will be exercised by passing current data from the feeder systems to CAMS. This testing will follow an approved test plan. All of the bureau's reports, all of the system screens, and all system audit logs will be executed by bureau users.

(7) During this process all problems that arise will be corrected at the IC; an impact assessment of the on-going operations of the bureau's current systems will be documented; and a lessons learned report prepared. Once the initial "shake down" is completed, the data and processing activities running on the IC copy of the bureaus's version of CAMS will be exactly matched to the current operations of the bureau. Parallel reports, batch runs, and interfaces will be run by the bureau's own staff and the results will be matched to the same outputs from the bureau's current live system.

(8) A complete disaster recovery and back-up plan will be developed and put into place which takes into consideration any special circumstances for each implementation site. This paralleling of bureau operations will continue for at least one month, but may continue longer depending on the size and complexity of the bureau. The parallel operations

will enable bureau users to begin processing duplicate transactions as part of preparation for production operations.

(9) Concurrently with the "parallel" operations at the IC, a copy of the CAMS software will be loaded and configured on the bureau's target hardware platform. This process will be different for each bureau that will deploy CAMS because some bureaus may run on existing platforms, while others will need to acquire equipment or develop cross-servicing arrangements. The purpose of the initial installation of the CAMS software will be to fully test the bureau's hardware, telecommunications, and configuration of the CAMS.

(10) Once a bureau completes testing of the fully configured version of CAMS, (e.g. with all its bureau specific interfaces), and is satisfied that it is ready to begin live operations with the new software, the bureau's implementation team will request a switchover date. At that time, the CAMS project manager will complete a final review of both the prepared site and the configured software, will arrange for the installation of the final version of the CAMS software at the bureau's site, and will prepare a switchover schedule. This schedule will include final acceptance testing and certification of the system readiness for live operations by the bureau's implementation team.

(11) Once the switchover has been made, the existing system at the bureau will be de-installed, though it will remain available for up-to 15 months as a fallback to the newly installed CAMS software.

Since switchover will likely be phased, the possibility of a catastrophic failure at any point in the deployment process will be minimized.

b. What will be the Department's recovery procedure if the core financial module, after having been fully

implemented at one bureau, breaks down, corrupts data, and cannot be relied upon for an indefinite period of time?

As stated above, each bureau will fully test the CAMS prior to production, an approved recovery plan will be in effect, and the current system will remain available for up to 15 months.

Importantly, the production version of each bureau's system will also be housed at the IC. This provides a short-term fallback position for each of the bureaus.

8. **Data security - protection from unauthorized access: Recent press stories about widespread unauthorized access to Defense Department computer networks by outside hackers, and the recent reports of unauthorized snooping into individual IRS taxpayer files by IRS employees, both illustrate the critical importance of computer system security procedures in order to protect the integrity of the data they contain. What security procedures for controlling access will be built into the CAMS system? Have you prepared a computer systems security planning document? May the subcommittee have a copy of that document?**

The CAMS Concept of Operation and Guiding Vision requires that the component functional systems that comprise CAMS be packages that are tightly integrated. The functional and technical requirements for each of the component functional systems incorporates security requirements that specifically address security and access control. Enclosure 4 describes the security planning strategy that has been developed and includes the Core Financial System (CFS) section on Security Requirements which was included in our RFP.

9. **Re-engineering: OMB's Circular A-127 governing financial management states (page 9) "Process redesign shall be considered an essential step towards meeting user needs..." Where will process redesign be worked into your financial management plans? Will re-engineering of functions be institutionalized as an ongoing activity at Commerce?**

Do you anticipate that Commerce will apply the discipline of business process re-engineering (BPR) to some of its financial management responsibilities, as a methodology for redesigning things from the ground up? Have you started a formal effort along these lines? Where, specifically, are you employing BPR, and what do you hope to accomplish in each area?

The components of CAMS (e.g., Core Financial System, Procurement System, Travel System, Property System, etc.) are based on a Commerce Vision and Concept of Operations which provides a foundation for the systems incorporating a fundamental re-engineering of Commerce's financial management operations.

Through CAMS implementation we will not just automate the processes and procedures currently in place in the different DOC bureaus. Instead, we plan to re-engineer the entire administrative operation. Processing steps will be shortened or eliminated, approvals will be accomplished electronically, duplicate effort carried out by different organizations will be eliminated, and critical activities such as data edits will be pushed down to the lowest level of processing (e.g., at the point of initial entry of data).

Business Process Re-engineering (BPR) is an integral part of the deployment strategy for CAMS. In order to implement the selected software, bureaus will be required to completely rethink how their day-to-day administrative operations will be carried out. The CAMS project will be a catalyst for change.

The BPR process will begin with the initial bureau planning for CAMS deployment. The DOC strategy for CAMS is to have a single organization that will maintain the software for the entire Department, but allow bureaus to deploy and operate the system differently. This allows DOC to have one standard set of software while giving the maximum flexibility to implement BPR opportunities in the different bureaus. Each bureau that will deploy and operate CAMS, will begin the deployment process by developing a bureau CAMS operational architecture. This architecture will present a "to be" view which describes exactly how the

bureau will fully utilize the capability of the CAMS software and how users will interact with it.

The BPR activities are currently getting under way, with the assignment of staff and the completion of initial planning. We expect this will result in less resources needed to maintain and operate the financial systems, a standardization of data formats and definitions which will provide for automated roll-up of data for Department level reports, faster processing of daily transactions, and cleaner and faster month-end closing.

10. **Cost accounting for performance evaluation: One of the critical functions for a good financial management system is a system of cost accounting that will permit the comparison of project or activity results and performance with the costs of those projects or activities. According to your Five-Year Plan, your core financial system, when implemented, will provide in some manner for cost allocations to be made. In connection with this portion of your core financial system I have two questions:**

    a. **Will your specifications for the cost accounting module provide unequivocally for allocation of all costs - including overhead costs - to particular projects, activities, or performance objectives, so that we in Congress can use that cost information for making performance judgments?**

    The critical functional requirements which are being used as the basis to select the software package for the Core Financial System include a section on cost accumulation and cost allocation. These requirements provide that all costs are recorded (both direct and indirect), that this process is carried out as part of the mechanics of everyday financial operations, that the system will automatically allocate indirect costs to program activities based on pre-defined allocation rates, and that application of indirect costs is monitored so that rates can be adjusted to correct variances between costs incurred and costs applied (ensure that all indirect costs are applied).

One of the basic requirements for the CFS is that all expenditures of funds must be associated with a project code. (This is true for obligations, accruals, payables, and disbursements.)

The project code is used to track costs (e.g., associate the amounts of funds expended with the benefiting activity). The project code is part of the standard Departmentwide Accounting Classification Code Structure (ACCS) and will be used in the same way by all DOC bureaus. This will permit Departmentwide tracking of performance objectives across several bureaus, if desired.

Most project codes will be used to associate obligations/expenditures with the related activity that directly benefits (direct costs); however, where expenditures benefit more than one direct activity (indirect costs), they will be accumulated under separate project codes. The amounts in these "indirect" projects will then be grouped into pools (overhead, benefits, G&A) and allocated to the direct projects using a common basis such as direct labor costs. 100% of all costs will be accounted for in this way. All obligation/expenditure amounts will be associated with a project code and no amount will be associated with more than one project. All indirect costs will be associated with direct costs automatically by the system based on the indirect rates that apply.

Program managers can establish project codes as necessary to track performance objectives or other activities. In addition, the DOC ACCS includes a separate code structure called a "Program" code. This code will be used to track amounts of budget authority authorized and expended (e.g., Activity, Sub-activity, Line Item, etc.). This will allow DOC to concurrently track budget authority and cost objectives.

The pertinent sections of the DOC RFP Critical Functional Requirements are in Enclosure 5.

b. **The CFO Act, which requires both cost accounting and performance measurement, does not explicitly link these two. Will your system go beyond the explicit requirements of the CFO Act in this respect?**

The DOC Critical Functional Requirements for the selection of the Core Financial System specifically provide for the capture of performance measurement data directly into the financial system.

In addition, the Critical Technical Requirements require that the selected system operate on a Relational Database Management System (RDBMS). This provides for the linking of performance data captured in other agency program systems to the cost data maintained in the CFS to provide consolidated reporting and analysis.

This is possible because in a relational database environment, data in one file structure (called a table) can be associated with data in any other file or table structure. Since cost information is keyed to the project code, this data can readily be associated with performance data by links based on the project code. If performance data is being captured in a separate system, it is only necessary for that system to either also include the project number or an equivalent unique code to match the two types of information.

A second advantage of an RDBMS is that new tables and/or data elements can be added to the CFS with a minimum of impact on the existing system (low cost and low time to expand the system to add new data). This will make the system very flexible so it can be adapted to meet changing future needs.

Commerce is making performance measurement tracking an integral part of financial management. The requirements for the technical capabilities within the CFS will ensure that the proper tools are in place and working to make it happen.

Enclosure 2

DEPARTMENT OF COMMERCE
CONTINUING PROFESSIONAL EDUCATION FOR FINANCIAL PROFESSIONALS

For purposes of the Department's program, continuing professional education (CPE) is any formally recognized training or development activity which contributes to an employee's professional growth or keeps an individual abreast of new developments in accounting and financial management.

Each finance officer must assure that an effective process is in place for assessing organizational and individual training needs. A CPE program must encompass all financial professionals and be designed to improve efficiency, meet organizational needs, and encourage employee self-development. Accomplishments in CPE and training should be used as one of the areas of consideration in performance ratings and for upward movement within the organization.

Cost is not a valid reason or justification to preclude the development of a CPE program. Rather, the important criteria is assessing the individual's and the organization's development needs and selecting the right training as available funds permit.

An Individual Development Plan (IDP) can be a very useful tool in establishing CPE goals for employees. An IDP outlines an employee's goals for expanding his/her knowledge and skills, while identifying training and developmental opportunities to help the employee achieve those goals. An IDP needs to be completed for each employee. IDPs should be mutually agreed upon by the employee and the supervisor. Additional guidance on creating and implementing IDPs can be found in Department Administrative Order 202-410 entitled, "Employee Development." A sample IDP form is shown in Appendix I.

Beginning with FY 94, supervisors should meet with each of their financial professionals to assess training needs in order to create IDP's. Specific training courses do not need to be selected for purposes of preparing an IDP--only the specific areas of knowledge or skill to be improved must be identified.

The plans for FY 94 should be in place by March 28, 1994; plans for each fiscal year thereafter should be completed in conjunction with the Employee Performance Plans.

Enclosure 3 is a summary of training courses considered to be fundamental Federal financial management training for the Department's accountants and other financial professionals. It is intended to assist finance officers with the preparation of IDP's. It is drawn from a comprehensive, though not all inclusive, listing of CPE courses for financial professionals published by the Joint Financial Management Improvement Program (JFMIP). The JFMIP's Compendium of Courses provides an excellent choice of courses directed specifically to accounting, financial management, auditing, and related topics. Attached is the 1994 JFMIP Compendium of Courses for your review and use.

IDPs appropriately address development of knowledge and skills in subject areas besides financial management. Enclosure 3, for example, does not cover development and training related to supervision and management, PC-based applications, systems development and implementation, and writing and presentation skills. Education and training in these areas are equally critical to the development of competent staff.

A goal for the Department's CPE for financial management personnel is a minimum of forty "CPE credit" hours per years. This parallels the requirements of the American Institute of Certified Public Accountants and the Institute of Internal Auditors.

CPE credits are formally assigned by approved sponsors of the State Boards of Accountancy. Training courses and conferences often advertise the number of CPE credits earned by participants. CPE credits are granted by approved sponsors for attendance at approved courses. CPE credits are generally awarded for speeches before professional groups and publication of articles.

One CPE credit hour is granted for every fifty minutes of classroom training. Speeches fifty minutes in length are assigned one CPE credit hour. Published research papers are assigned ten credit hours, articles can be assigned twenty-five credit hours, and books receive fifty credit hours. No partial

credits are ever granted and amounts are rounded to the lower value.

In addition to CPE credits granted by approved sponsors, bureau finance officers are permitted to determine CPE equivalent credit for other training and developmental activities engaged in by members of their financial management staff. CPE equivalent credits related to Department sponsored symposia and conferences will be set by the Deputy Chief Financial Officer (CFO).

Each finance officer is required to track budgeted and accomplished training by individual. This includes the number of CPE credit hours earned. A budgeted versus actual course completion summary shall be included in each organizational unit's annual report to the CFO. The summary shall include the number of actual CPE/CPE equivalent credit hours attained as compared to the budgeted hours. The results of the CPE program shall be discussed and included in the report. The finance officer's annual report should address all staff training for the year, and should not be limited to professional training only. The annual report requires other information as well as the training data and the annual call will be made in the spring.

In order to maintain professional certifications, the staff members may on occasion earn CPE credits outside of their Commerce sponsored training. Employees earning CPE credits for such efforts should be encouraged to report them to the finance officer for tabulation in the CFO's annual report.

INDIVIDUAL DEVELOPMENT PLAN
OFFICE:
DATE:

EMPLOYEE'S NAME/TITLE:
SUPERVISOR'S NAME:

K & S = Knowledge and Skills

Essential Job Tasks	Required K & S	K & S to be Improved	Formal Training Needed	Est. Cost

K & S = Knowledge and Skills

Enclosure 3

DEPARTMENT OF COMMERCE
CONTINUING PROFESSIONAL EDUCATION FOR ACCOUNTANTS

FUNDAMENTAL TRAINING COURSES

The purpose of this Appendix is to identify, for varying levels of professional experience, fundamental Federal financial management training for the Department's accountants and other financial professionals. It is intended to assist finance officers with the preparation of individual training plans.

The JFMIP suggests subject areas for continuing professional education:

1. Updates on generally accepted accounting principles, concepts, and applications.

2. Federal accounting, budgeting, and reporting:

   Federal accounting standards
   Appropriation law
   U. S. Government standard general ledger
   JFMIP Federal financial management systems requirements
   Treasury financial manual
   Budget formulation
   Budget execution
   Appropriation accounting

3. Other appropriate education

   Internal agency policies and procedures
   Agency accounting handbooks
   Organization and program orientation
   On-the-job cross-training
   Documentation of manual and automated systems
   Statistical sampling
   Preventing and detecting fraud
   Evaluating accounting systems

Understanding computer equipment, system design, development, maintenance, security
Database concepts, applications
Management of projects and resources
Communication and behavioral skills

The JFMIP points out that because the education requirements related to Federal financial management are so extensive they may take five to ten years to meet.

The course listing presented in this Appendix is drawn from the hundreds of courses for Federal GS-510 accountants covered by the JFMIP 1993 Compendium of Courses and its supplement for Fall 1993. Training courses considered by the Deputy CFO to be fundamental are listed for:

Accounting Interns, Accountants, and
Senior and Supervisory Accountants.

Parenthetical note following each listing is a page reference to the 1993 Compendium of Courses.

ACCOUNTING INTERNS

NOTE - For purposes of this document, accounting interns are assumed to have satisfied entry requirements for GS-510 position by education rather than experience. For that reason this document does not list courses normally associated with a four year college level program in accounting. The focus is on mastery of accounting principles and concepts in the Federal Government.

Courses:

Introduction to Government Accounting (3)
Overview of Governmental Accounting (3)
Accounting Procedures in Federal Agencies (4)
Federal Government Accounting I (4)
Federal Government Accounting II (5)
Concepts of Federal Accounting I (5)
Practice Problems in Governmental Accounting (7)

Standard General Ledger (8)
Federal Budget Process (10)
Budget Execution (14)
Preparation of Financial Reports (19)
Audited Financial Statements Requirements
of the CFO Act (17)
Ethics (27)
Certifying Officers (37)

ACCOUNTANTS

Courses:

Accounting for Budget Process: Revolving Funds (7)
Accounting for Budget Process: Practice Problems in
Governmental
Accounting (8)
Appropriation Law (8)
Budget Execution and Fund Control (15)
Seminar on Applying Internal Management Control
in a Federal Agency (16)
Implementing the Integrity Act (Overview) (10)
Management Control Reviews (16)
Federal Accounting and Financial Reporting (18)
Standards for Financial Auditing (19)
Ethics (27)
Introduction to Accounting Requirements for
Government Contracts (32)
Government Contract Law (32)
Grant Management (32)
Property Management (35)
Supply Management (36)
Travel Management (36)

SENIOR/SUPERVISORY ACCOUNTANT

Courses:

Analyzing Federal Agency Financial Statements (19)
Automated Accounting Systems (18)
Performance Auditing (23)
Developing Prices and Users Fees for Federal Programs (28)
Measuring Efficiency in Government (29)

Enclosure 4

CAMS Security Strategy

The CAMS security strategy is based on a multi-level approach to controlling access at the: data, application, and system levels. OMB Circulars A-130 and A-123; NIST Special Publication 800-6 on Computer Security; DOC IRM experience; and the Department's Information Technology Management Handbook have been used as the basis for specifying the Security Requirements in the RFPs for each of the component COTS packages. CAMS requires that only previously authorized users who have a profile established and a password may have access to the application software and the associated data. Since the CAMS application systems are COTS packages, they will be hosted on existing bureau and Department platforms. These existing platforms are already implemented within established IRM environments that are bound by the aforementioned policies and guidelines. The existing security procedures are the first level of system access control.

The CAMS will incorporate embedded security that limits access to the COTS package, by requiring login to the target platform via password authorization. The RDBMS/COTS package will require an additional login that establishes an individual user's rights and privileges once the user is granted access to the system. These security features limit unauthorized access to the CAMS system. Audit logs are maintained to track unauthorized system login attempts. The log tracks date, time, terminal ID, user ID and function attempted.

An individual user's access rights controls what data, functions, and actions the individual may perform during a session. Leveraging the full security features embedded within an RDBMS ensures that controls on access to menu, screens, functions, specific data actions, (i.e., add, change, delete, view) data tables, and specific data fields are directly incorporated into the application software. Unauthorized access attempts are logged to an audit log. In addition, functions and actions performed by authorized users are also written to audit logs with detailed

transaction activity logged in order to ensure appropriate use of the systems, functions and data. Any CAMS functions and data access can be monitored with this approach. The log tracks date, time, terminal ID user ID, table and function attempted. A standard procedure is for the system administrator to regularly monitor the audit logs for potential issues and/or problems.

Restricting access with controlled passwords that have forced expirations; controlling access to data, functions, and actions that may be executed via specific user profiles/views; providing full support for audit logs that track detailed transaction activity; and monitoring the internal software controls and audit logs completes the controls within CAMS.

In preparation for CAMS, each of the bureaus will develop planned operational profiles, (e.g. how the bureau intends to operate CAMS), that document: who has access, where they are located, what may each class of user do within the system, and when they may perform those functions. This information will be used by each of the bureau implementation planning teams to support each bureau's development of their CAMS Security Plan. As each of these Security Planning documents are developed, (CAMS will be implemented across the Department in a phased manner), a copy can be provided to the Subcommittee.

The CAMS Concept of Operation and Guiding Vision requires that the component functional systems that comprise CAMS be Commercial Off-The-Shelf (COTS) packages that are tightly integrated. The functional and technical requirements for each of the component functional systems incorporates Security Requirements that specifically address security and access control, see Enclosure 4 for the Core Financial System (CFS) RFP section on Security Requirements.

CFS Security Requirements From RFP

C.4.2.2.3 **System Security**

C.4.2.2.3.1 Access security for the proposed system shall be provided at the screen, record, and field level for all information in the database.

C.4.2.2.3.2 Only each bureau's System Administrator shall have the ability to modify bureau-related system tables.

C.4.2.2.3.3 Users of the proposed system shall be able to delegate their authorities subject only to security and access controls.

C.4.2.2.3.4 The proposed system shall restrict access (input or query) down to the data element level for each user-ID. All unauthorized login attempts, and all unauthorized access attempts, shall be written to a log file with the date and time, terminal ID, User ID, table(s) and function(s) ID recorded. This information should be accessible via query and report.

C.4.2.2.3.5 The proposed system shall generate and maintain audit trails recording all changes and all accesses to the database, including the terminal from which the change/access was made, the date and time of the change/access, and the ID of the person making the change/access.

C.4.2.2.3.6 If more than one bureau is supported by the proposed system on a single host, each system security requirement shall be separately applicable to each bureau's data.

C.4.2.2.3.7 Controls within the proposed system shall have been designed to support operation in accordance with both OMB Circular A-123 ("Internal Control Systems") and OMB Circular A-130, Appendix III ("Security of Federal Automated Information Systems").

C.4.2.2.3.8 System security facilities shall provide the Bureau System Administrators full control over access by bureau users, including the ability to specify the type of access on the basis of requester's ID, password, terminal used, and function performed.

C.4.2.2.3.9 The proposed system shall operate under the contractor's or third party security packages installed on the bureau-level host systems.

Enclosure 5

CFS Cost Accumulation/Cost Allocation Requirements From RFP

C.4.2.1.4 **Cost Accumulation/Allocation**

C.4.2.1.4.1 Capture data elements listed under "Record Cost Allocation/Rate Application" in Attachment 8, Section J, "Data Elements by Process."

C.4.2.1.4.2 Provide the ability to utilize user-defined rate application and cost allocation formulas using fixed dollar amounts, fixed and system calculated percentages, statistical units, and any combination of these methods.

C.4.2.1.4.3 Provide the option to automatically generate transactions based on the application of overhead rates and the allocation of costs incurred, on-line (by transaction), periodically (daily, weekly, pay period, monthly, quarterly, annual, etc.), or upon request.

C.4.2.1.4.4 Provide the capability for automated multi-step cost allocation and reallocation where the results from previous cost allocation steps are included in the base for subsequent steps. For example, $50 is allocated from Project A to Project B, and Project B allocates $100 of direct costs plus $50 of indirect costs (previously allocated from Project A) to Project C. Projects A and B will have zero costs upon completion of the allocation process.

C.4.2.1.4.5 Allocate and reallocate direct and indirect costs by any element or combination of elements of the ACCS as defined by the user.

C.4.2.1.4.6 Permit the user to adjust or reverse prior period cost allocations in the current period.

C.4.2.1.4.7 Provide the capability for automated multi-step rate applications where the results from previous rate applications are included in the base for subsequent applications. After the rates have been applied, total costs include the original costs plus those resulting from the rate application process. For example:

Step 1: $100 (original base) X 10% = $10
Total cost = $110

Step 2: $110 (original base + applied costs) X 20% = $22
Total cost = $132

C.4.2.1.4.8 Apply rates to costs within any element or combination of elements of the ACCS as defined by the user: for example, apply a rate to an amount in a project or apply a rate to an amount in an object class within a project.

C.4.2.1.4.9 Provide the capability to record costs in object class codes other than those required by OMB Circular A-11 (non-OMB object classes).

C.4.2.1.4.10 Permit the user to convert amounts collected in non-OMB object class codes (i.e., other than those required by OMB Circular A-11) to object class codes recognized by OMB, and do this conversion by two different methods: (1) summing amounts in a number of non-OMB object class codes to equal one OMB object class code; (2) distributing amounts in non-OMB object class codes to OMB object class codes through a user-defined formula.

C.4.2.1.4.11 Provide the capability to capture or store the data elements listed under "Record Labor Costs" listed in Attachment 8, Section J, "Data Elements by Process."

C.4.2.1.4.11.1 Calculate leave surcharges, personnel benefits, and other overhead charges, by applying rates to labor costs, by employee, at any element or combination of elements of the ACCS.

C.4.2.1.4.12 Provide the option to implement a new rate without impacting costs previously accumulated under the old rate.

C.4.2.1.4.13 Provide the option to apply a new rate retroactively for a user-specified period of time (within the current fiscal year), so that the original rate application total is replaced with the revised rate application total.

C.4.2.1.4.14 Provide the option to store each of the rates, along with their effective dates.

C.4.2.1.4.15 Generate on-demand a hard-copy or on-screen listing of the detailed calculations and results, by elements of the ACCS, for each step of the cost allocation and rate application processes.

C.4.2.1.4.16 Provide the capability to capture the cost of raw materials/labor, work-in-process, and finished goods inventory by elements of the ACCS.

C.4.2.1.4.17 Provide the capability to record expendable/stores inventory costs and issues directly and as an interface from an existing system and capture the data elements listed under "Inventory Operations/Issues" in Attachment 8, Section J, "Data Elements by Process."

C.4.2.1.4.18 Provide the capability to: 1) compare costs or income accumulated in one or more ACCS's to those accumulated in other ACCS's for the same user-specified period of time (within the current fiscal year) to determine over/under distributions, and/or profits/losses; and 2) further distribute these over/under distributions or profits/losses to other ACCS's based on user-defined formulas.

C.4.2.1.4.19 Provide the capability to calculate, record, and report depreciation and usage costs for capitalized property (using the straight-line or usage methods), by any element or combination of elements of the ACCS, and capture the data elements listed under "Record Depreciation" in Attachment 8, Section J, "Data Elements by Process."

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